Financial Report

2017-18

UNIVERSITY of VIRGINIA


3711

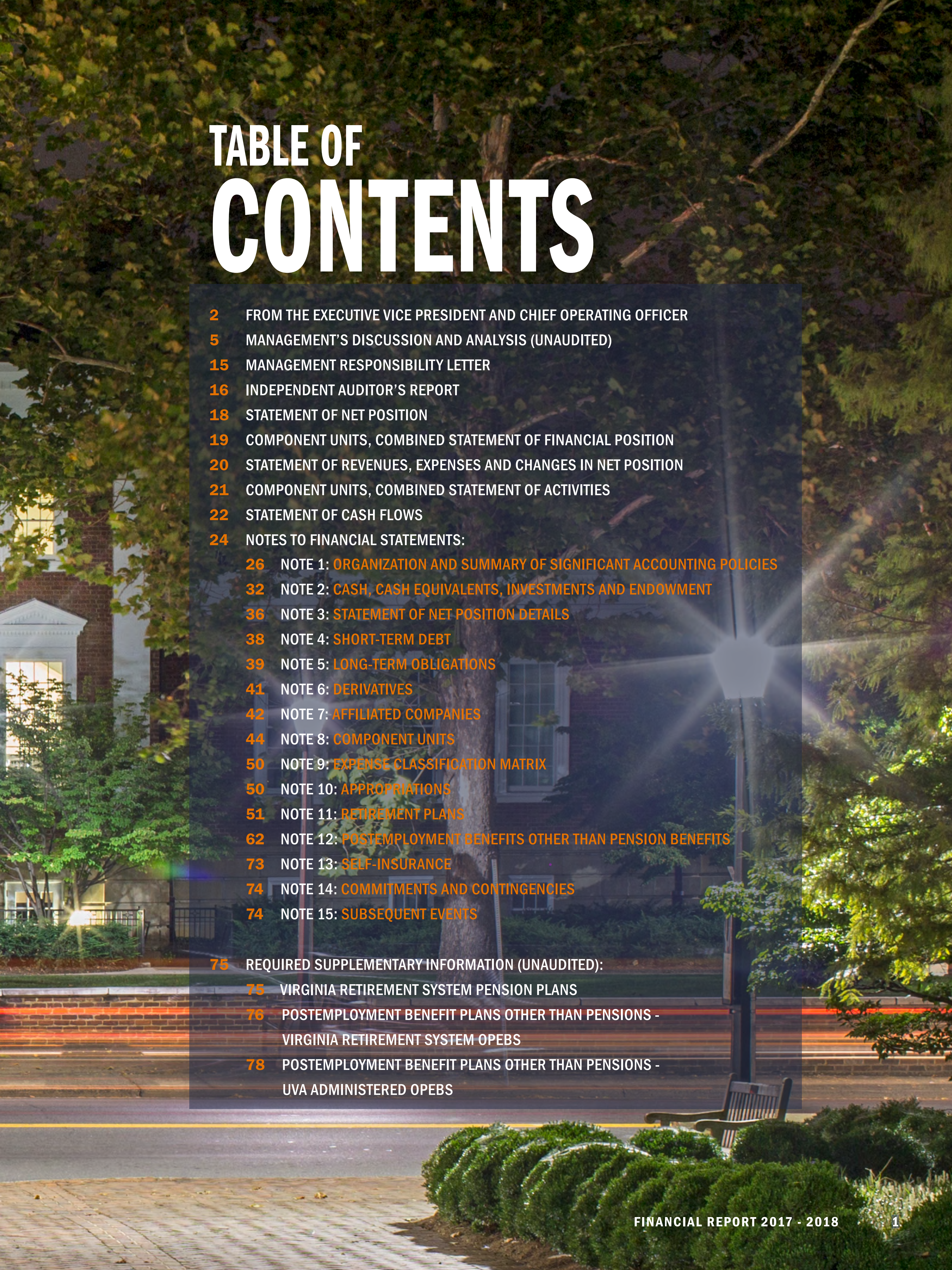


TABLE OF CONTENTS

FROM THE EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

Fiscal year 2017-18 represents an important year of transition for the University of Virginia, with opportunities to reflect on the past, to make a difference in the present, and to honor the promise of the future at the beginning of the University's third century.

Once again, the University received recognition for providing a high quality educational experience at an excellent value. *U.S. News & World Report* most recently ranked UVA No. 3 in the nation for Best Public University and No. 2 for Best Value Public University. *The Princeton Review* rated UVA as the No. 1 Best-Value Public College. The University of Virginia consistently has been ranked near the top among all public universities and the top 25 of all universities in the nation since U.S. News began publishing its rankings more than three decades ago. We have held this position by, among other things, making strategic decisions to invest our resources to achieve and sustain educational excellence and to promote access and affordability for our students.

TRANSITIONS FOR THE UNIVERSITY'S THIRD CENTURY

In September 2017, one month prior to the University's Bicentennial Commemoration kickoff event on the Lawn, the Board of Visitors announced the selection of James E. Ryan as the University's ninth President. When President-elect Ryan addressed the University community for the first time from the steps of the Rotunda, President Sullivan and former Presidents Casteen and O'Neil stood by in support. With her successor identified, President Sullivan spent the remainder of the year focused on advancing important initiatives and solidifying the University's position of strength for the leadership transition.

In March 2018, President-elect Ryan announced searches for my successor as Executive Vice President and Chief Operating Officer and for a successor to my colleague, Tom Katsouleas, as Executive Vice President and Provost. Both Tom and I have taken steps to prepare for a seamless handoff to those who follow us. By the time this report is published, Jennifer (J.J.) Wagner Davis will have begun her term as EVP-COO in November 2018. Liz Magill will begin her term as EVP-Provost in summer 2019. Both bring significant experience to their new roles and all of us at the University look forward to welcoming them. Over the last few months, I have been pleased to get to know J.J. and I am confident that she will be a strong leader for our Operations team at the start of the University's third century. I have no doubt that she will hit the Grounds running and I am gratified that she will have a strong team by her side.

FINANCIAL STRENGTH

Despite uncertain funding for higher education and academic medical centers across the nation, including federal research funding and federal funding for healthcare, the University's balance sheet has never been stronger. As we begin our third century, the University of Virginia is poised to lead in a new era for higher education. Generations of dedicated women and men have set UVA on a course to make a difference in the world and to fulfill the promise of educating future leaders, creating new knowledge, and serving the public.

The University sustained its coveted AAA bond rating from all three rating agencies – Moody's Investor Services, Standard & Poor's, and Fitch Investor Services – throughout fiscal year 2018. The rating agencies cited excellent student demand, solid resources, exceptional strategic positioning, ample operating surpluses, competitive strength in patient care, and impressive fundraising among the UVA's strengths and the basis for achieving top ratings. This standing enables UVA to issue debt at a low rate, resulting in important operational savings. In fiscal year 2018, the Board of Visitors approved the University's first "shelf" capital financing program. In April 2018, UVA issued its first tax-exempt 100-year "century" bonds to finance capital projects and create a sustainable infrastructure pool.

As of June 30, 2018, the University's total assets were $12.2 billion, including its endowment, which provides an essential source of permanent support and financial stability. In fiscal year 2018, the University of Virginia Investment Management Company (UVIMCO) reported a strong return of 11.4% on the Long Term Pool. UVIMCO's twenty-year annualized return of 10.9% rates among the best of all higher education endowments. In April 2018, Robert Durden succeeded Larry Kochard as UVIMCO's Chief Executive Officer and Chief Investment Officer. Larry provided excellent leadership for nearly seven years, and I am confident that Robert will continue a tradition of excellence as he focuses on expanding the investment model, innovating, and tightening alignment within UVIMCO and with external constituents.

The annual endowment distribution is an essential funding stream within the University's diverse revenue base. Ninety-five percent of this distribution each year supports the academic experience, and the remaining five percent supports patient care.

A strong tradition of philanthropic support from dedicated alumni, parents, and friends has helped to solidify the University's financial strength and stability and enabled UVA to limit tuition increases, keeping the University affordable for students. We are now in the early stages of a comprehensive fundraising campaign, and early indicators are that interest in supporting University priorities at the start its third century remains strong.

Sponsored research is another important funding source. In fiscal year 2018, sponsored research awards totaled $393.7 million, an increase of $40.6 million over the previous fiscal year. Much of the growth of the University's research enterprise in recent years has been the work of the School of Medicine. In fiscal year 2018, the federal government provided 79% of the awards, foundations and industry provided 17%, and state, local, and foreign governments supported 4% of grant and contract awards.

INVESTING IN UNIVERSITY PRIORITIES

The past improvements we have made along with the strength of the University's balance sheet and operations position us well to invest in advancing work that spans academic disciplines, in critical support for students and faculty, and in essential operations.

Planners continually study the University's facilities and real estate in order to address changing space needs for both education and healthcare. Along with routine and smaller construction projects, the University is undertaking major projects through a $3.5 billion capital program across the Academic Division, the Medical Center, and the University of Virginia's College at Wise. Among the most significant projects in the plan are the upcoming renewal of Alderman Library to meet the needs of students and faculty in the 21st century and the completion of the expansion of the UVA Medical Center.

In addition to capital investments, the University has made significant investments in students, faculty, and academic programs. In the first two years of Strategic Investment Fund (SIF) awards, the Board of Visitors committed a total of $350.6 million toward 37 different projects. The Board approved new SIF commitments of almost $136.2 million toward 11 projects in fiscal year 2018. These projects advance research and scholarship, build bridges across disciplinary and structural boundaries, enhance the academic experience, and support access and affordability.

The largest new SIF award in fiscal year 2018 was a $95 million investment in faculty support known as the Bicentennial Professors Fund. This mirrors the most significant investment of the previous fiscal year of $100 million to create the Bicentennial Scholars Fund for Need- and Merit-Based Scholarships. Both awards were structured to leverage philanthropic support by offering funds to match donors' contributions. The Bicentennial Scholars Fund attracted more than $112 million in private support, and the Bicentennial Professors Fund is proving to be equally attractive to donors who want to amplify the power of their gift. With these SIF commitments and associated fundraising efforts, the University has affirmed the fundamental importance of investing in the faculty whose teaching and scholarship is the foundation of academic excellence and in the talented students who can come here to learn regardless of their financial means.

STRENGTHENING OPERATIONS TO SUPPORT THE UNIVERSITY'S MISSION

We are guided by a philosophy of organizational excellence that is manifested in continuous improvement focused on directing resources to core mission activities and offering high quality service and powerful tools that support informed decision-making. In fiscal year 2018, the University undertook more than 275 organizational excellence initiatives of varied size and scope. Since fiscal year 2015, UVA has realized more than $82 million in accumulated savings from this work, adding value, saving time and money, and enabling reinvestment in priorities. In fiscal year 2018, organizational excellence savings amounted to $21.9 million, exceeding the budgeted target for the fourth consecutive year.

The Ufirst Project is the largest organizational excellence initiative undertaken to date, with a goal of transforming human resource (HR) service delivery across the University. In fiscal year 2018, we implemented a new structure to reorganize the way UVA HR serves the Academic Division, the College at Wise, the Medical Center, and the University Physicians Group. In addition, the Ufirst Project team completed critical work to prepare for the January 2019 launch of Workday, a cloud-based technology platform that consolidates and streamlines HR processes. This work supports the University's most valuable resource – the people who work here – and positions our schools, Health System, and units to recruit and retain talented faculty, staff, and team members.

Preliminary work to set the stage for the Finance Strategic Transformation took place in fiscal year 2018. UVA Finance has reorganized, absorbing the Payroll function from HR and migrating the Office of Sponsored Programs to the Office of the Vice President for Research. Leveraging the learnings of the Ufirst Project, the Finance Strategic Transformation kicked off this fall and will continue throughout fiscal year 2019.

Our IT organization plays an essential role in supporting the technology advancements that are fundamental to many of our organizational excellence initiatives. In addition to providing technology leadership as the University adopts new systems, Information Technology Services (ITS) and Information Security ensure that the University's technology infrastructure has the capacity to support the work of our faculty, staff, and students in a secure environment.

UVA HEALTH SYSTEM: NATIONALLY RECOGNIZED PATIENT CARE, RESEARCH, AND EDUCATION

We continue to progress in our efforts to provide the highest quality care to the patients we serve as well as researching breakthroughs that improve the human condition and educating the next generation of healthcare workers. UVA Health System was recently rated the No. 1 hospital in Virginia by U.S. News & World Report for the third consecutive year, and has 11 specialties ranked in the top 50 in the nation by U.S. News.

Together with Children's Hospital of the King's Daughters (CHKD) in Norfolk, UVA Health System announced plans in 2017 to form a clinically integrated network (CIN) dedicated to improving children's health. The CIN is designed to improve patients' health and lower costs through care coordination that reduces practice variation as well as by implementing physician-designed clinical standards.

The UVA School of Medicine has seen a dramatic rise in research funding in recent years, increasing from $162 million in fiscal year 2014 to $222 million in fiscal year 2017. Our overall financial performance continues to be strong, with the Health System's consolidated operating revenue of $2.4 billion and operating margin of 0.5 percent in fiscal year 2018 both exceeding budget.

PUBLIC SAFETY

The safety and well-being of the University community is fundamental to the University's ability to attract students, faculty, staff, patients, and visitors. We are committed to providing a safe environment and to providing members of the University community with information and resources to help them take personal responsibility for their own safety.

Charlottesville was the epicenter of a national issue in August 2017 when white supremacists chose our city as a focal point for their movement. Their march on Grounds while bearing torches and the violent Unite the Right rally downtown and associated events tested the entire community, bringing problems of the past and the present into the spotlight. The University responded throughout the year with policy and procedural changes, investments in infrastructure and personnel devoted to public safety, and a thorough examination of related issues from an academic and local perspective. This work is important and ongoing.

In spring 2018, we hired Associate Vice President for Safety and Security Gloria Graham to lead a newly consolidated public safety and security department for the University. A veteran law enforcement official with more than 22 years of service at higher education institutions across the nation, Gloria joined the team in May 2018 and quickly got to work. When the fiscal year closed at the end of June, she had already begun to build a team by hiring Tommye Sutton to succeed Mike Gibson as Chief of the University of Virginia Police Department. Chief Gibson retired after 36 years of service to the University, including nearly 13 years as Chief of Police. Chief Sutton began his term on August 1, 2018. Gloria is reorganizing our public safety and security functions in fiscal year 2019, bringing together emergency preparedness and management, police, and safety compliance personnel under one umbrella to maximize collaboration, coordination, and ensure strategic investment of resources.

BUILDING FOR THE FUTURE

As I reflect on the six years I have served the University as Executive Vice President and Chief Operating Officer, I am grateful to the leaders at all levels of our organization who have been beside me along the way and enriched my time here. Despite serious challenges, together we have taken significant steps to advance the University's priorities, particularly sustaining academic and healthcare excellence and expanding access and affordability. With a strong commitment to our contemporaries and to those who follow us, we have built upon the foundation laid by those who came before us to strengthen the University for the future.

Over two centuries, the University of Virginia has served its students, the Commonwealth, and the nation. With our strong financial standing, dedicated leaders, and a collective commitment to evolve and continually seek higher levels of excellence, the University of Virginia stands poised to continue to lead and to serve the global community more than 200 years after its founding. I am honored to have been a part of this University and its important work, and I am grateful to everyone with whom I have had the pleasure of working over the last six years.

Patrick D. Hogan

Patrick D. Hogan
Executive Vice President and Chief Operating Officer, 2012-2018

INTRODUCTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This discussion and analysis provides an overview of the financial position and results of activities of the University of Virginia (the University) for the year ended June 30, 2018. Comparative information for the year ended June 30, 2017, has been provided where applicable. Management has prepared this discussion, which should be read in conjunction with the financial statements and the notes that follow this section.

ACADEMIC DIVISION

As a public institution of higher learning with approximately 22,805 on-Grounds students and 2,635 full-time instructional and research faculty members in 11 schools in 2017-18, the University offers a diverse range of degree programs, from baccalaureate to postdoctoral levels, including doctorates in 54 programs. The University is recognized internationally for the quality of its faculty and its commitment to the primary academic missions of instruction, research, public service and medical care. The University consistently ranks among the nation's top public colleges and universities, both for its general academic programs and for its strengths in specific academic disciplines. Its emphasis on the student experience is extraordinary among major public institutions, and its dedication to new advances in research permeates all of its schools and colleges.

MEDICAL CENTER

The Medical Center is an integrated network of primary and specialty-care services ranging from wellness programs and routine checkups to the most technologically advanced care. The hub of the Medical Center is a licensed hospital with 600 beds in a state-designated Level 1 trauma center located in Charlottesville. The Medical Center also has a transitional care hospital with 40 beds that is located west of the Charlottesville campus. In addition, primary and specialty care are provided at convenient clinic locations throughout Central Virginia communities. The University's Medical Center has a tradition of excellence in teaching, advancement of medical science and patient care, consistently ranking among the best health care systems in the nation.

COLLEGE AT WISE

Located in southwestern Virginia, the College at Wise is a public liberal arts college with 2,066 students and 107 full-time instructional and research faculty. It offers baccalaureate degrees in 30 majors and eight pre-professional programs, including dentistry, pharmacy, engineering, forestry, law, medicine, physical therapy and veterinary medicine.

USING THE FINANCIAL STATEMENTS

The University's financial report includes five financial statements and related notes:

1. The Statement of Net Position for the University of Virginia
2. The Combined Statement of Financial Position for the Component Units of the University of Virginia
3. The Statement of Revenues, Expenses and Changes in Net Position for the University of Virginia
4. The Combined Statement of Activities for the Component Units of the University of Virginia
5. The Statement of Cash Flows for the University of Virginia

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. These principles require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories. Although some of the University's foundations are reported in the component unit financial statements, this Management's Discussion and Analysis excludes them except where specifically noted.

STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the University. The net position is an indicator of the prudent utilization of financial resources and the overall health of the University, while the change in net position reflects the current year's activities. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost, less an allowance for depreciation. Depreciation is a method of allocating the cost of a tangible asset over its useful life to indicate how much of an asset's value has been consumed.

The University's Statement of Net Position at June 30, 2018, and June 30, 2017, is summarized as follows:

SUMMARY OF THE STATEMENT OF NET POSITION *(in thousands)*			**INCREASE (DECREASE)**	
	2018	**2017**	**AMOUNT**	**PERCENT**
Current assets	$ 636,843	$ 509,128	$ 127,715	25.1%
Noncurrent assets				
Endowment investments	4,838,142	4,444,091	394,051	8.9%
Other long-term investments	2,800,053	2,495,607	304,446	12.2%
Capital assets, net	3,782,805	3,513,428	269,377	7.7%
Other	132,883	90,139	42,744	47.4%
Total assets	**12,190,726**	**11,052,393**	**1,138,333**	**10.3%**
Deferred outflows of resources	154,387	151,151	3,236	2.1%
Total assets and deferred outflows of resources	**12,345,113**	**11,203,544**	**1,141,569**	**10.2%**
Current liabilities	663,449	602,493	60,956	10.1%
Noncurrent liabilities	2,997,823	2,308,245	689,578	29.9%
Total liabilities	**3,661,272**	**2,910,738**	**750,534**	**25.8%**
Deferred inflows of resources	133,676	87,389	46,287	53.0%
Total liabilities and deferred inflows of resources	**3,794,948**	**2,998,127**	**796,821**	**26.6%**
TOTAL NET POSITION	**$ 8,550,165**	**$ 8,205,417**	**$ 344,748**	**4.2%**

CURRENT ASSETS AND LIABILITIES

Current assets consist of cash and cash equivalents, short-term investments, and accounts receivable. Current liabilities consist of accounts payable, unearned revenue and the current portion of long-term liabilities.

Current assets cover current liabilities 0.96 times, an indicator of good liquidity and the ability to weather short-term demands on working capital. Current assets cover 2.5 months of total operating expenses, excluding depreciation. For 2017-18, one month of operating expenses equaled approximately $259.2 million.

ENDOWMENT AND OTHER INVESTMENTS

Performance. The major portion of the University's endowment and other investments continues to be maintained in a long-term investment pool managed by the University of Virginia Investment Management Company. The return for the long-term investment pool was 11.4 percent in fiscal year 2017-18. This performance figure includes realized and unrealized gains and losses, along with cash income. Total investment income for all funds was $766.3 million for the fiscal year ended June 30, 2018.

Distribution. The University uses its endowment funds to support operations by distributing endowment earnings with the objective of balancing the annual funding needed to support the endowed programs against the preservation of future purchasing power. The endowment spending-rate policy is approved by the Board of Visitors and is based on total return, not just cash earnings. For the year ended June 30, 2018, the total distribution for the University's endowment was $205.8 million, or 5.04 percent of the June 30, 2016, market value of the endowment, the measurement date.

Other Investments. The total of other short-term and long-term investments is $2.8 billion, a $304.7-million increase over the prior year, which is primarily due to the strong performance of the long-term investment pool.

Endowment investments. The total of endowment investments is $4.8 billion, a $394.1-million increase over the prior year. Additional new gifts and strong investment earnings were the primary drivers of this increase.

From a net position perspective, earnings from the endowment are expendable; however, about two-thirds of the earnings are restricted as to use by donors. A significant portion of the unrestricted earnings, the remaining one-third of the endowment, is internally designated by the University for scholarships, fellowships, professorships and research activities.

Including endowment investments held by the nine related foundations reported as component units, the combined University system endowment was just under $6.7 billion as of June 30, 2018.

CAPITAL AND DEBT ACTIVITIES

A critical factor in sustaining the quality of the University's academic and research programs and residential life is the development and maintenance of its capital assets. The University continues to implement its long-range plan to modernize its older teaching and research facilities, construct new facilities, and fund major maintenance obligations.

Capital projects consist of replacement, renovation, and new construction of academic, research, and health care facilities, as well as significant investments in equipment and information systems.

Some of the largest new or ongoing projects during the year are listed as follows:

MAJOR CAPITAL PROJECTS DURING 2017-18 *(in thousands)*	PROJECTED COST	FY2018 ACTUAL EXPENSES
UVA Medical Center - MRI/ED/OR/Bed Tower	$ 391,600	$ 95,094
Gilmer Hall and Chemistry Building renovations	186,831	33,235
UVA Medical Center Ivy Musculoskeletal Center and Utility Plant	180,000	4,338
McCormick Road residence Hall	104,700	20,485
Brandon Avenue Upper Class residence hall	66,000	14,482
Brandon Avenue - green street infrastructure	41,000	4,197
UVA Medical Center 500 Ray C. Hunt Drive	35,000	8,805
UVA Medical Center HVAC renovations	28,000	8,073
UVA Medical Center levels 7 and 8 renovations	20,000	4,667
TOTAL	**$ 1,053,131**	**$ 193,376**

As infrastructure and building projects were completed or otherwise acquired during the year, the University's capital asset balances grew significantly. More than $236.6 million of completed projects were added to depreciable capital assets during the fiscal year. The largest building projects completed and placed into service are listed below:

MAJOR PROJECTS COMPLETED OR ACQUIRED DURING 2017-18 *(in thousands)*	CAPITALIZED COST
UVA Medical Center 500 Ray C. Hunt Drive	$ 20,435
Disharoon Park Baseball Stadium Expansion	16,887
Gooch Dillard residence hall renovation phase III	15,453
Electrical Ductbank for Dominion Power	14,217
Brandon Avenue property acquisition	13,559
UVA Medical Center Outpatient Center renovation	12,072
TOTAL	**$ 92,623**

Financial stewardship requires the effective management of resources, including the prudent use of debt to finance capital projects. As evidence of the University's effective stewardship, the University has received the highest long-term and short-term debt ratings from all three major rating agencies, including Moody's Investors Service (Aaa/P-1), Standard & Poor's (AAA/A-1+) and Fitch Ratings, Inc. (AAA/F1+). The University of Virginia is one of only four public institutions with the highest long-term debt ratings from all three agencies. Besides being an official acknowledgment of the University's financial strength, these ratings enable the University to obtain future debt financing at optimum pricing. In addition to issuing its own bonds, the University utilizes its commercial paper program, backed by a general revenue pledge, to provide interim financing for its capital improvements and provide a source of short-term liquidity. Outstanding commercial paper is typically converted to long-term debt financing as appropriate, within the normal course of business.

The University's debt portfolio contains a strategic mix of maturity structures and both variable- and fixed-rate obligations. The University achieves this mix through issuing a combination of variable- and fixed-rate debt, including commercial paper. It also adjusts its debt mix through the use of interest rate swaps executed according to its Board-approved interest-rate risk-management policy. The University had just over $2.1 billion of debt outstanding as of June 30, 2018, which included $121.9 million of short-term commercial paper.

NET POSITION

The four net-position categories represent the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The University's net position on June 30, 2018, and June 30, 2017, is summarized below:

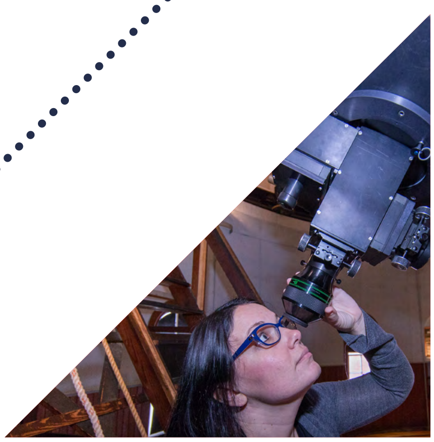
NET POSITION *(in thousands)*			**INCREASE (DECREASE)**	
	2018	**2017**	**AMOUNT**	**PERCENT**
Net investment in capital assets	$ 1,961,811	$ 1,921,181	$ 40,630	2.1%
Restricted				
Nonexpendable	747,191	676,312	70,879	10.5%
Expendable	3,091,428	2,987,365	104,063	3.5%
Unrestricted	2,749,735	2,620,559	129,176	4.9%
TOTAL NET POSITION	**$ 8,550,165**	**$ 8,205,417**	**$ 344,748**	**4.2%**

Net investment in capital assets represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Capitalized assets increased by $269.4 million and were offset by a $228.8-million increase in debt used to finance those capital assets, for a net change of $40.6 million.

Restricted nonexpendable net position represents the historical value (corpus) of the University's permanent endowments, which cannot be expended due to donor restrictions. The increase in nonexpendable net position included new gifts of $53.5 million.

Restricted expendable net position includes spendable earnings on permanent and quasi-endowments, gifts, grants and contracts, and loan funds that are subject to externally imposed restrictions governing their use. An increase in the restricted expendable net position is usually related to investment returns. The increase is a result of the investment returns of 11.4 percent for the fiscal year.

Unrestricted net position includes all other activities that are both spendable and not subject to externally imposed restrictions. The majority of the University's unrestricted net position has been internally designated for the core mission activities of instruction, research, health services programs and initiatives, and capital projects that align with the University's highest priorities. The increase is largely a result of investment returns of 11.4 percent and the Medical Center's positive operating margin.



STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents the University's results of activities for the year. Presented below is a summarized statement for the years ended June 30, 2018, and June 30, 2017:

SUMMARY OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION *(in thousands)*			**INCREASE (DECREASE)**	
	2018	**2017**	**AMOUNT**	**PERCENT**
Operating revenues				
Student tuition and fees, net	$ 565,061	$ 545,168	$ 19,893	3.6%
Patient services, net	1,642,115	1,545,404	96,711	6.3%
Sponsored programs	364,263	321,906	42,357	13.2%
Other	217,390	240,614	(23,224)	(9.7%)
Total operating revenues	**2,788,829**	**2,653,092**	**135,737**	**5.1%**
Operating expenses	**3,342,677**	**3,105,487**	**237,190**	**7.6%**
Operating loss	**(553,848)**	**(452,395)**	**(101,453)**	**22.4%**
Nonoperating revenues (expenses)				
State appropriations	168,449	168,664	(215)	(0.1%)
Gifts	170,454	163,356	7,098	4.3%
Investment income	766,288	728,658	37,630	5.2%
Pell grants	13,586	12,485	1,101	8.8%
Interest on capital asset-related debt	(87,361)	(69,062)	(18,299)	26.5%
Build America Bonds (BAB) rebate	8,159	8,151	8	0.1%
Other net nonoperating expenses	(48,181)	(32,525)	(15,656)	48.1%
Net nonoperating revenues	**991,394**	**979,727**	**11,667**	**1.2%**
Income before other revenues, expenses, gains, or losses	**437,546**	**527,332**	**(89,786)**	**(17.0%)**
Capital appropriations, gifts, and grants	53,346	46,294	7,052	15.2%
Additions to permanent endowments	53,543	46,963	6,580	14.0%
Total other revenues	**106,889**	**93,257**	**13,632**	**14.6%**
INCREASE IN NET POSITION	**544,435**	**620,589**	**(76,154)**	**(12.3%)**
NET POSITION - BEGINNING OF YEAR	8,205,417	7,584,828	620,589	8.2%
Net effect of prior period adjustments	(199,687)	-	(199,687)	(100.0%)
NET POSITION - END OF YEAR	**$ 8,550,165**	**$ 8,205,417**	**$ 344,748**	**4.2%**

GASB principles determine the categorization of revenues and expenses as either operating or nonoperating activities. Because GASB Statement No. 34 requires that revenues from state appropriations, Pell grants and gifts be considered nonoperating while the expenses funded from these revenues are categorized as operating (with the exception of interest on capital debt, which remains nonoperating), the University will nearly always demonstrate an operating loss on its Statement of Revenues, Expenses and Changes in Net Position.

REVENUES

The University maintains a diverse stream of revenues, which decreases its dependence on any one single source and allows it to adapt during difficult economic times. The University's revenues, for the years ended June 30, 2018, and June 30, 2017, are summarized below:

SUMMARY OF REVENUES *(in thousands)*	2018			2017			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
Operating revenues								
Student tuition and fees, net	$ 565,061	$ -	$ 565,061	$ 545,168	$ -	$ 545,168	$ 19,893	3.6%
Patient services, net	-	1,642,115	1,642,115	-	1,545,404	1,545,404	96,711	6.3%
Federal, state, and local grants and contracts	294,055	-	294,055	263,217	-	263,217	30,838	11.7%
Nongovernmental grants and contracts	70,208	-	70,208	58,689	-	58,689	11,519	19.6%
Sales and services of educational departments	29,636	-	29,636	43,134	-	43,134	(13,498)	(31.3%)
Auxiliary enterprises revenue, net	140,494	-	140,494	137,057	-	137,057	3,437	2.5%
Other operating revenues	28	47,232	47,260	2,446	57,977	60,423	(13,163)	(21.8%)
Total operating revenues	**1,099,482**	**1,689,347**	**2,788,829**	**1,049,711**	**1,603,381**	**2,653,092**	**135,737**	**5.1%**
Nonoperating revenues								
State appropriations	168,449	-	168,449	168,664	-	168,664	(215)	(0.1%)
Private gifts	168,087	2,367	170,454	159,895	3,461	163,356	7,098	4.3%
Investment income	662,859	103,429	766,288	652,829	75,829	728,658	37,630	5.2%
Other nonoperating revenues	120,475	-	120,475	105,742	-	105,742	14,733	13.9%
Total nonoperating revenues	**1,119,870**	**105,796**	**1,225,666**	**1,087,130**	**79,290**	**1,166,420**	**59,246**	**5.1%**
TOTAL REVENUES	**$ 2,219,352**	**$ 1,795,143**	**$ 4,014,495**	**$ 2,136,841**	**$ 1,682,671**	**3,819,512**	**$ 194,983**	**5.1%**

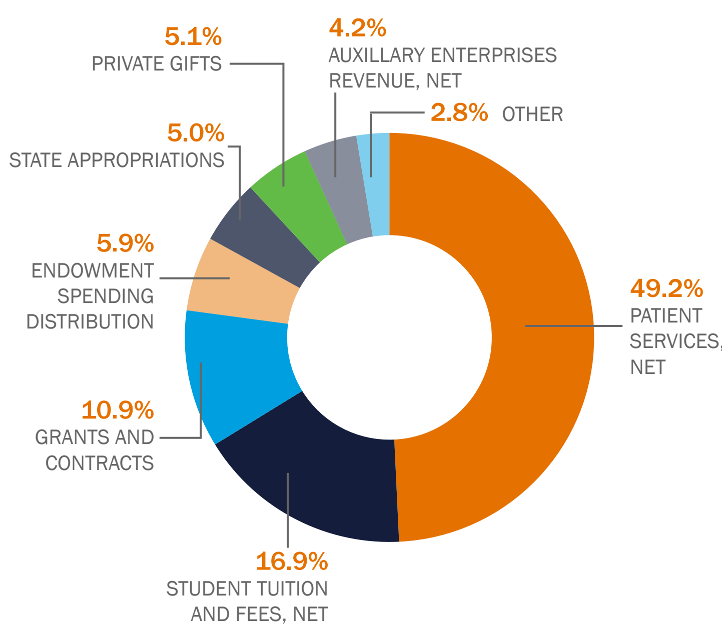
Net student tuition and fees revenue increased due to new programs, enrollment growth, and changes in tuition and fee rates. Tuition and fees revenue is reported net of scholarships and allowances provided from University sources. Net patient revenues are higher due to increased patient collections after write-offs as result of outpatient volume growth and higher acuity. Grant and contract activity, including direct research and the recovery of indirect facilities and administrative costs, increased in an environment of ongoing pressure at the federal level. The increase in nonoperating revenues is attributable to the positive market return on the University's long-term investments.

REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING

Below is a chart of revenues by source (both operating and nonoperating). These revenues were used to fund the University's operating activities for the fiscal year ended June 30, 2018. As noted earlier, GASB requires state appropriations, current gifts and Pell grants to be treated as nonoperating revenues. Endowment spending is not current-year revenue but a distribution of previously recognized investment income. However, it is an important funding source for current operations and is included in the chart below to present a more accurate picture of the University's funding of current operations.

Patient services revenues are principally generated within the University's Medical Center under contractual arrangements with governmental payers and private insurers and accounted for nearly one-half of the University's revenues and operational funding sources. As part of the Medical Center's Strategic Plan, there has been a focused effort to grow patient activity throughout central Virginia. The Medical Center continues to negotiate anual payment increases with managed-care companies and receives annual payment updates from the Medicare program.

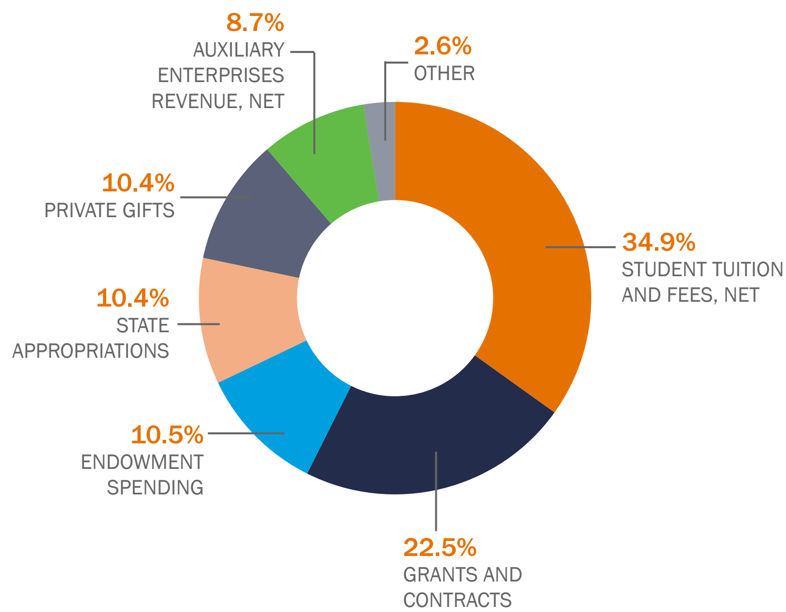
TOTAL UNIVERSITY REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING



Net student tuition and fees, and grants and contracts are the next largest revenues. Private support from endowment spending and gifts combined provides 11 percent of the University's funding. State appropriations accounts for just 5 percent of funding for operations. With ongoing economic pressures on state revenues and increasing consideration of affordability, funding from private sources continues to be vitally important to the University's operations.

The University measures its performance both for the University as a whole and for the University without its Medical Center and other clinical activities. A clearer picture of the academic and research mission revenue stream emerges when the Medical Center's data are excluded, as presented below. Net tuition and fees make up more than one-third of the operating revenues for the Academic Division and Wise. Contributing a combined 20.9 percent, private support in the form of endowment spending distribution and gifts has been, and will continue to be, essential to maintaining the University's academic excellence. External research support from grants and contracts makes up another 22.5 percent of operational funding.

ACADEMIC AND WISE REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING



EXPENSES

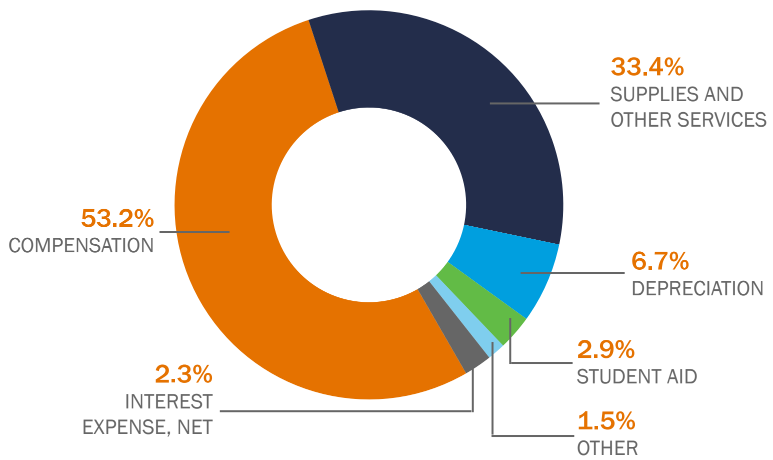
The University's expenses for the years ended June 30, 2018, and June 30, 2017, are summarized as follows:

SUMMARY OF EXPENSES *(in thousands)*	**2018**			**2017**			**TOTAL INSTITUTION INCREASE (DECREASE)**	
	ACADEMIC DIVISION & WISE	**MEDICAL CENTER**	**TOTAL INSTITUTION**	**ACADEMIC DIVISION & WISE**	**MEDICAL CENTER**	**TOTAL INSTITUTION**	**AMOUNT**	**PERCENT**
Operating expenses								
Compensation	$ 1,130,384	$ 714,172	$ 1,844,556	$ 1,043,897	$ 675,721	$ 1,719,618	$ 124,938	7.3%
Supplies and other services	409,394	750,570	1,159,964	388,280	674,975	1,063,255	96,709	9.1%
Student aid	100,373	-	100,373	92,691	-	92,691	7,682	8.3%
Depreciation	133,789	98,687	232,476	127,780	97,467	225,247	7,229	3.2%
Other operating expenses	5,308	-	5,308	4,676	-	4,676	632	13.5%
Total operating expenses	**1,779,248**	**1,563,429**	**3,342,677**	**1,657,324**	**1,448,163**	**3,105,487**	**237,190**	**7.6%**
Nonoperating expenses and other								
Interest expense (net of BAB rebate)	58,900	20,302	79,202	43,055	17,856	60,911	18,291	30.0%
Loss on capital assets	2,956	25,001	27,957	1,281	2,285	3,566	24,391	684.0%
Other nonoperating expenses	9,226	10,998	20,224	23,568	5,391	28,959	(8,735)	(30.2%)
Total nonoperating expenses	**71,082**	**56,301**	**127,383**	**67,904**	**25,532**	**93,436**	**33,947**	**36.3%**
TOTAL EXPENSES	**$ 1,850,330**	**$1,619,730**	**$ 3,470,060**	**$ 1,725,228**	**$ 1,473,695**	**$ 3,198,923**	**$ 271,137**	**8.5%**

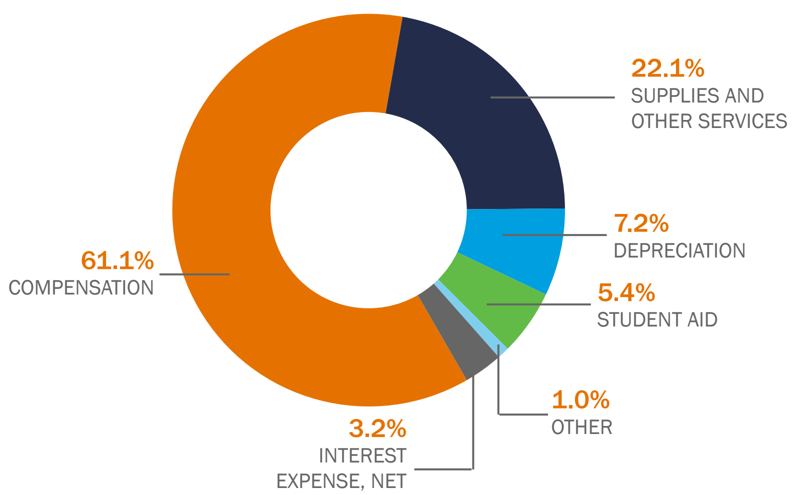
Increases in operating expenses are primarily driven by the increase in compensation and benefits (including the Virginia Retirement System pension and OPEB accruals). The University is committed to recruiting and retaining outstanding faculty and staff, and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. The increase in supplies and other services is primarily related to the Medical Center's strategic initiatives, ongoing relationships with other health systems, contractual increases with pharmaceutical suppliers, the opening of new clinics and the continuing collaborative effort to increase staffing levels to meet patient demand.

The following are graphic illustrations of expenses (both operating and nonoperating) for the fiscal year ended June 30, 2018.

TOTAL UNIVERSITY EXPENSES



ACADEMIC AND WISE EXPENSES



The first chart presents information for the total University, including the Medical Center, while the second chart presents information for just the Academic and Wise divisions. In addition to their natural (object) classification, it is also informative to review operating expenses by function.

A complete matrix of expenses, natural versus functional, is contained in Note 9 of the Notes to the Financial Statements. Expenses for core mission functions of patient services, instruction and research account for 72 percent of total operating expenses. The remainder is for support costs of these core mission functions and includes academic support, libraries, student services, institutional support services, and operation and maintenance of facilities.

ECONOMIC OUTLOOK

The University of Virginia, as a public institution of higher education, faces a similar economic outlook as the Commonwealth of Virginia and the nation. Higher education remains a focus of attention at the state and national levels, particularly in terms of access, affordability and student outcomes. Due to its diverse revenue base, strong endowment, broad and generous philanthropic support, and a commitment to organizational excellence, the University is well positioned to meet these challenges.

The University began the commemoration of its bicentennial on October 6, 2017 by celebrating and exploring its history, while charting a course for its third century that sustains academic, research and health care excellence. The University is also coming from a position of strength related to the recent leadership transition. President Teresa Sullivan announced in January 2017 her intention to retire as president. In September 2017, the Board of Visitors appointed James E. Ryan, Dean of the Harvard Graduate School of Education, UVA Law graduate and former professor, as the next president of the University. Ryan joined the University in August 2018, and is leading a sustained and stable transition.

The University's multi-year financial planning supports strategic priorities, serves as a framework for achieving new levels of excellence, and maintains the University on a sustainable path to achieving its goals and realizing its vision for the 21st century. The guiding principles for our planning include:

- Keeping the University affordable and accessible
- Investing in our students, faculty and staff
- Pursuing targeted savings opportunities to ensure the highest and best use of resources
- Seeking solutions to provide the highest level of operational effectiveness
- Remaining good stewards of resources and maintaining our AAA bond rating

The University of Virginia is committed to providing an excellent education to talented students regardless of their ability to pay. In addition to a commitment to meeting full need for all in-state and out-of-state students on a need-blind basis, President Ryan announced that the University will also provide free tuition for Virginia families with less than $80,000 in income and typical assets, as well as free tuition and room and board for Virginia families with less than $30,000 in income and typical assets.

In August 2018, the Board of Visitors approved an investment of $100 million in strategic funds to support new student scholarships through the University's Bicentennial Scholars Fund. This is the second $100 million investment that the Board has designated for matching scholarships from its Strategic Investment Fund (SIF). The first, approved in December 2016, was fully matched by donors for new scholarships in only 18 months. In fiscal year 2018, the Board also approved a $95 million Bicentennial Professors Fund, which mirrors the Bicentennial Scholars Fund and will allow the University to continue to recruit and retain the best faculty to ensure educational excellence in the future.

The University's pan-institutional Organizational Excellence initiative continues to yield measurable effectiveness and efficiency gains. In 2017-18, UVA schools, units, and service departments led more than 275 improvements, partnerships, and cost-savings efforts, illustrating the University's commitment to continuous improvement. These collective efforts saved the University $21.9 million in time and money. Over four years, cumulative savings exceed $82 million.

Moody's Investors Service changed the 2018 higher education outlook from stable to negative, citing weaker revenue growth for four-year colleges and universities as well as uncertainty at the federal level over policy changes. Moody's predicts moderated growth from patient care revenue and expense growth that outpaces softening revenue growth, while citing solid financial reserves as a stabilizing element during a period of potential volatility and possible weaker returns.

UVA is not immune to the pressures facing higher education. However, the University is well positioned to meet the challenges it faces. Moody's has assigned Aaa ratings to the University, reflecting its superior student market position, strong operating performance, and continued donor support.

Federal policy impacts several of the core University activities. The 2017 Tax Cut and Jobs Act included provisions that impact educational institutions, including affecting incentives for charitable giving, changing the method of computing unrelated business income tax, imposing an excise tax on certain executive compensation, and changing the rules regarding employee benefits such as moving and parking expenses. The federal fiscal year 2018 budget request proposed reductions to several key federal agencies that fund research. However, Congress has remained supportive and rejected many of the proposals. It is anticipated that the 2019 budget request will also include proposed reductions, but Congressional support for research is expected to remain steady.

The Commonwealth remains committed to diversifying and strengthening the state economy through increased focus on job creation, workforce development, and business investments and with less dependence on federal spending. As a result, general fund revenue collections increased 6.3 percent in fiscal year 2018 – ahead of the forecasted growth of 3.4 percent. The impact for fiscal year 2020 to the University's general fund appropriation will be clearer after the 2019 General Assembly Session. Long-term, the University's diverse revenue base and commitment to organizational efficiencies, as well as the fact that state appropriations make up only 5 percent of the University's total revenues and other sources of operational funding, ensure that the University remains in good position to withstand unpredictability of future state support.

The University's Health System has continued to produce positive financial results. Volume growth is driven by patients with complex medical needs. Specific emerging growth strategies include transplant, oncology, specialty pharmacy, and orthopedics. Looking forward, the Health System maintains its strategic goal of providing exceptional clinical care and has developed a long-range financial plan to support these goals within the context of a rapidly changing health care industry. Similar to other health systems across the country, UVA is experiencing unprecedented reimbursement challenges, increasing costs associated with pharmaceuticals and medical supplies, challenges of recruitment and retention of frontline health care workers, and a growing compliance burden. As a state hospital, we also have a continued responsibility to care for the medically underserved in Virginia.

UVA's stable outlook reflects our expectations of continued excellent student demand and philanthropic support, in addition to sound operating performance, effective and attentive leadership, and commitment to our mission.

MANAGEMENT RESPONSIBILITY

November 27, 2018

To the President and Board of Visitors of the University of Virginia:

We are pleased to submit the annual Financial Report of the University of Virginia for the year ended June 30, 2018. Management is responsible for the objectivity and integrity of the accompanying financial statements, which have been prepared in conformance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and Statement No. 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial statements, of necessity, included management's estimates and judgments relating to matters not concluded by year-end. The financial information contained elsewhere in the annual Financial Report is consistent with that included in the financial statements.

Management is responsible for maintaining the University's system of internal control, which includes careful selection and development of employees, proper division of duties, and written accounting and operating policies and procedures augmented by a continuing internal audit program. Although there are inherent limitations to the effectiveness of any system of accounting controls, management believes that the University's system provides reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition and that the accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with generally accepted accounting principles.

The Auditor of Public Accounts for the Commonwealth of Virginia, using the reports of independent certified public accountants for the component units, provides an independent opinion regarding the fair presentation of the financial statements of the University's financial position. Their examination was made in accordance with generally accepted government auditing standards and included a review of the system of internal accounting controls to the extent they considered necessary to determine the audit procedures required to support their opinion. The Audit, Compliance and Risk Committee of the Board of Visitors meets periodically and privately with the independent auditors, the internal auditors and the financial officers of the University to review matters relating to the quality of the University's financial reporting, the internal accounting controls, and the scope and results of audit examinations. The committee also reviews the scope and quality of the internal auditing program.

Respectfully submitted,

Melody S. Bianchetto
Vice President for Finance

Gerald E. Burke
Assistant Vice President for Financial Operations

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 27, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit and Review Commission

Board of Visitors
The University of Virginia

Independent Auditor's Report

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Virginia, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

www.apa.virginia.gov | (804) 225-3350 | reports@apa.virginia.gov

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University of Virginia as of June 30, 2018, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 of the accompanying financial statements, the University of Virginia implemented Governmental Accounting Standards Board Statements No. 75 and 81, related to accounting and financial reporting for postemployment benefits other than pensions and irrevocable split interest agreements, respectively. Our opinion is not modified with respect to these matters.

Correction of 2017 Financial Statements

As discussed in the Unearned Revenue section in Note 1 of the accompanying financial statements, the fiscal year 2017 financial statements have been restated to correct a misstatement related to recognition of revenue on certain grants and contracts. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University's 2017 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 7, 2017. In our opinion, while the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived, it does not include the necessary adjustments for the 2017 financial statements to be comparative with the 2018 financial statements as described in Note 1.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and Analysis on pages 5 through 14; the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information – Virginia Retirement System Pension Plans on page 75; the Schedule of Employer's Share of Net OPEB Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information for the Health Insurance Credit, Group Life Insurance, Disability Insurance, and Line of Duty programs on pages 76 through 78; the Schedule of Total OPEB Liability and Related Ratios and the Notes to the Required Supplementary Information for the University's Retiree Health and Optional Retirement Retiree Life Insurance plans on page 78. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

AUDITOR OF PUBLIC ACCOUNTS

www.apa.virginia.gov | (804) 225-3350 | reports@apa.virginia.gov

UNIVERSITY OF VIRGINIA
STATEMENT OF NET POSITION *(in thousands)*

AS OF JUNE 30, 2018 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2017)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 172,386	$ 97,751
Short-term investments (Note 2)	337	68
Appropriations available	6,586	4,380
Accounts receivable, net (Note 3a)	396,702	343,415
Prepaid expenses	23,383	28,707
Inventories	31,336	28,275
Notes receivable, net (Note 3b)	6,113	6,532
Total current assets	**636,843**	**509,128**
Noncurrent assets		
Cash and cash equivalents (Note 2)	22,880	13,237
Long-term investments (Note 2)	2,800,053	2,495,607
Endowment (Note 2)	4,838,142	4,444,091
Notes receivable, net (Note 3b)	33,116	62,865
Pledges and other receivables, net (Note 3c)	14,665	14,037
Capital assets - depreciable, net (Note 3d)	3,262,075	3,127,018
Capital assets - nondepreciable, net (Note 3d)	520,730	386,410
OPEB asset (Note 12)	15,437	-
Other (Note 3e)	46,785	-
Total noncurrent assets	**11,553,883**	**10,543,265**
DEFERRED OUTFLOWS OF RESOURCES (Note 3f)	**154,387**	**151,151**
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 12,345,113**	**$ 11,203,544**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 3g)	$ 354,283	$ 310,267
Unearned revenue (Note 3h)	74,080	105,726
Deposits held in custody for others	11,714	4,459
Commercial paper (Note 4)	121,845	86,295
Long-term debt - current portion (Note 5a)	9,581	10,333
Long-term liabilities - current portion (Note 5b)	91,946	85,413
Total current liabilities	**663,449**	**602,493**
Noncurrent liabilities		
Long-term debt (Note 5a)	1,995,829	1,507,280
Derivative instrument liability (Note 6)	27,890	31,620
Net pension liability (Note 11)	506,386	551,786
OPEB liability (Note 12)	293,545	64,071
Other noncurrent liabilities (Note 5b)	174,173	153,488
Total noncurrent liabilities	**$ 2,997,823**	**$ 2,308,245**
DEFERRED INFLOWS OF RESOURCES (Note 3i)	**133,676**	**87,389**
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**$ 3,794,948**	**$ 2,998,127**
NET POSITION		
Net investment in capital assets	$ 1,961,811	$ 1,921,181
Restricted:		
Nonexpendable	747,191	676,312
Expendable	3,091,428	2,987,365
Unrestricted	2,749,735	2,620,559
TOTAL NET POSITION	**$ 8,550,165**	**$ 8,205,417**
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	**$ 12,345,113**	**$ 11,203,544**

Certain 2017 amounts have been restated to conform to 2018 classifications.

The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA
COMPONENT UNITS, COMBINED STATEMENT OF FINANCIAL POSITION *(in thousands)*

AS OF JUNE 30, 2018 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2017)

		2018		2017
ASSETS				
Current assets				
Cash and cash equivalents	$	76,577	$	92,945
Receivables		148,352		136,404
Other current assets		323,199		291,630
Total current assets		**548,128**		**520,979**
Noncurrent assets				
Pledges receivable, net of current portion of $33,827 and $39,006		53,343		65,609
Long-term investments		9,625,569		8,788,412
Capital assets, net of depreciable		440,467		428,405
Other noncurrent assets		61,058		29,910
Total noncurrent assets		**10,180,437**		**9,312,336**
TOTAL ASSETS	**$**	**10,728,565**	**$**	**9,833,315**
LIABILITIES AND NET ASSETS				
Current liabilities				
Assets held in trust for others	$	115,456	$	103,083
Other liabilities		207,753		252,940
Total current liabilities		**323,209**		**356,023**
Noncurrent liabilities				
Long-term debt, net of debt insurance cost and current portion of $9,438 and $6,675		163,587		163,846
Other noncurrent liabilities		8,098,106		7,336,575
Total noncurrent liabilities		**8,261,693**		**7,500,421**
TOTAL LIABILITIES	**$**	**8,584,902**	**$**	**7,856,444**
NET ASSETS				
Unrestricted	$	465,187	$	397,442
Temporarily restricted		915,924		847,054
Permanently restricted		762,552		732,375
TOTAL NET ASSETS	**$**	**2,143,663**	**$**	**1,976,871**
TOTAL LIABILITIES AND NET ASSETS	**$**	**10,728,565**	**$**	**9,833,315**

The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION *(in thousands)*

FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
REVENUES		
Operating revenues		
Student tuition and fees, net of scholarship allowances of $128,228 and $113,061	$ 565,061	$ 545,168
Patient services, net of charity care of $3,889,036 and $3,658,619	1,642,115	1,545,404
Federal grants and contracts	284,163	256,145
State and local grants and contracts	9,892	7,072
Nongovernmental grants and contracts	70,208	58,689
Sales and services of educational departments	29,636	43,134
Auxiliary enterprises revenue, net of scholarship allowances of $19,851 and $19,355	140,494	137,057
Other operating revenues	47,260	60,423
TOTAL OPERATING REVENUES	**2,788,829**	**2,653,092**
EXPENSES		
Operating expenses (Note 9)		
Compensation and benefits	1,844,556	1,719,618
Supplies and other services	1,159,964	1,063,255
Student aid	100,373	92,691
Depreciation	232,476	225,247
Other	5,308	4,676
TOTAL OPERATING EXPENSES	**3,342,677**	**3,105,487**
OPERATING LOSS	**(553,848)**	**(452,395)**
NONOPERATING REVENUES (EXPENSES)		
State appropriations (Note 10)	168,449	168,664
Gifts	170,454	163,356
Investment income	766,288	728,658
Pell grants	13,586	12,485
Interest on capital asset-related debt	(87,361)	(69,062)
Build America Bonds rebate	8,159	8,151
Loss on capital assets	(27,957)	(3,566)
Other net nonoperating expenses	(20,224)	(28,959)
NET NONOPERATING REVENUES	**991,394**	**979,727**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**437,546**	**527,332**
Capital appropriations	15,146	15,691
Capital grants and gifts	38,200	30,603
Additions to permanent endowments	53,543	46,963
TOTAL OTHER REVENUES	**106,889**	**93,257**
INCREASE IN NET POSITION	**544,435**	**620,589**
NET POSITION		
Net position - beginning of year	8,205,417	7,584,828
Net effect of prior period adjustments (Note 1)	(199,687)	-
NET POSITION - BEGINNING OF YEAR AS RESTATED	**8,005,730**	**7,584,828**
NET POSITION - END OF YEAR	**$ 8,550,165**	**$ 8,205,417**

The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA
COMPONENT UNITS, COMBINED STATEMENT OF ACTIVITIES *(in thousands)*

FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
UNRESTRICTED REVENUES AND SUPPORT		
Contributions	$ 30,172	$ 30,785
Fees for services, rentals and sales	493,105	429,017
Investment income	46,691	42,067
Net assets released from restriction	138,720	134,780
Other revenues	110,438	155,021
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**819,126**	**791,670**
EXPENSES		
Program services, lectures and special events	535,346	510,259
Scholarships and financial aid	82,619	93,128
Management and general	42,946	41,209
Other expenses	109,217	91,948
TOTAL EXPENSES	**770,128**	**736,544**
DEFICIENCY OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**48,998**	**55,126**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	71,041	81,199
Investment and other income	155,216	149,429
Reclassification per donor stipulation	251	203
Net assets released from restriction	(138,892)	(135,173)
NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	**87,616**	**95,658**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	29,181	45,068
Investment and other income (loss)	531	(1,066)
Reclassification per donor stipulation	294	291
Net assets released from restriction	172	393
NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	**30,178**	**44,686**
CHANGES IN NET ASSETS	**166,792**	**195,470**
Net assets - beginning of year	1,976,871	1,781,401
NET ASSETS - END OF YEAR	**$ 2,143,663**	**$ 1,976,871**

The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA
STATEMENT OF CASH FLOWS *(in thousands)*

FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 572,977	$ 547,718
Grants and contracts	355,989	312,868
Patient services	1,599,095	1,551,066
Sales and services of educational activities	16,724	41,851
Sales and services of auxiliary enterprises	145,241	134,619
Payments to employees and fringe benefits	(1,826,612)	(1,725,883)
Payments to vendors and suppliers	(1,164,703)	(1,070,098)
Payments for scholarships and fellowships	(100,373)	(92,691)
Perkins and other loans issued to students	(8,194)	(62,984)
Collection of Perkins and other loans to students	9,065	61,862
Other receipts	44,913	63,598
NET CASH USED BY OPERATING ACTIVITIES	**(355,878)**	**(238,074)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	166,332	169,545
Additions to permanent endowments	53,543	46,963
Federal Direct Loan Program receipts	161,661	127,239
Federal Direct Loan Program payments	(161,661)	(127,239)
Pell grants	13,586	12,485
Deposits held in custody for others	7,207	(10,041)
Noncapital gifts and grants and endowments received	147,689	153,334
Proceeds from noncapital debt	493,632	-
Repayments from noncapital debt	(175,000)	(25,000)
Other net nonperating (expenses) revenues	(26,584)	333
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**680,405**	**347,619**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	15,146	14,000
Capital gifts and grants received	37,068	30,468
Proceeds from capital debt	246,103	392,986
Proceeds from sale of capital assets	1,182	-
Acquisition and construction of capital assets	(495,947)	(368,289)
Principal paid on capital debt and leases	(32,432)	(265,412)
Interest paid on capital debt and leases	(87,718)	(74,211)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(316,598)**	**(270,458)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	544,805	711,518
Interest on investments	(4,808)	21,116
Purchase of investments and related fees	(460,010)	(567,045)
Other investment activities	(3,638)	(35,051)
NET CASH PROVIDED BY INVESTING ACTIVITIES	**76,349**	**130,538**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**84,278**	**(30,375)**
Cash and cash equivalents - beginning of year	110,988	141,363
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 195,266**	**$ 110,988**

The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA
STATEMENT OF CASH FLOWS, CONTINUED *(in thousands)*

FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (533,848)	$ (452,395)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	232,476	225,247
Provision for uncollectible loans and write-offs	-	1,786
Changes in assets, liabilities, deferred outflows and deferred inflows:		
Receivables, net	25,020	3,941
Inventories	(3,062)	(1,942)
OPEB asset	(3,433)	-
Other assets	(2)	-
Prepaid expenses	5,324	(1,136)
Notes receivable, net	287	1,765
Capital assets, net	7,203	-
Deferred outflows of resources	19,214	(35,725)
Accounts payable and accrued liabilities	(85,573)	(19,383)
Unearned revenue	(11,482)	3,147
Long-term liabilities	(23,725)	6,922
Net pension liability	(45,400)	54,206
OPEB liability	43,734	-
Deferred inflows of resources	37,389	(24,507)
TOTAL ADJUSTMENTS	**197,970**	**214,321**
NET CASH USED BY OPERATING ACTIVITIES	**$ (355,878)**	**$ (238,074)**
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets acquired through assumption of a liability	$ 43,579	$ 8,970
Assets acquired through a gift	9,647	9,284
Change in fair value of investments	779,107	613,384
Increase in receivables related to nonoperating income	2,399	2,758
Gain on disposal of capital assets	22,044	1,004
(Loss) gain on investments in affiliated companies	(5,784)	23,149
Goodwill reclassification	-	8,717
Change in non-controlling interest in subsidiary	(74)	1,260
VRS and VaLORS special revenue allocation	-	13,576
Revaluation of investment	-	(5,968)
Amortization of bond premium	8,142	11,948
Trustee-held split interest agreements	3,638	-

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO
FINANC
STATEM


CIAL
MENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

The University of Virginia (the University) is an agency of the Commonwealth of Virginia (the Commonwealth) and is governed by the University's Board of Visitors (the Board). A separate report is prepared for the Commonwealth that includes all agencies, boards, commissions and authorities over which the Commonwealth exercises or can exercise oversight authority. The University is a discretely presented component unit of the Commonwealth and is included in its basic financial statements. The University consists of three divisions. The Academic Division and the University of Virginia's College at Wise (the College at Wise) generate and disseminate knowledge in the humanities, arts, and scientific and professional disciplines through instruction, research and public service. The Medical Center Division (the Medical Center), along with its two controlled subsidiary companies — University of Virginia Imaging, LLC and Community Medicine, LLC — provides routine and ancillary patient services through a full-service hospital and clinics.

INCOME TAX STATUS

The University is an agency of the Commonwealth and is exempt from federal income tax under Section 115(a) of the Internal Revenue Code. The University's related organizations are 501(c)(3) organizations and are exempt from federal income tax under the Internal Revenue Code. Certain activities may be subject to taxation as unrelated business income per Internal Revenue Code requirements.

FINANCIAL REPORTING ENTITY

As required by generally accepted accounting principles in the United States of America (U.S. GAAP), the financial reporting entity includes both the University and all of its component units. The University's component units are either blended or discretely presented in the University's financial statements. The blended component units, although legally separate, are, in substance, part of the University's operations and, therefore, are reported as if they were part of the University. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

BLENDED COMPONENT UNITS

UVA Global, LLC, a 100 percent controlled subsidiary of the University, was organized to serve as the parent company to a wholly foreign-owned enterprise (the WFOE) in Shanghai, China. The purpose of UVA Global, LLC and its subsidiary, the WFOE, is to help promote and orchestrate the University's academic activities and operations in China in compliance with the legal structures permitted by the host country. Subsequently, an authorized representative has been appointed to act on behalf of the parent company and the University.

DISCRETELY PRESENTED COMPONENT UNITS

The University has 27 legally separate, tax-exempt related foundations operating in support of the interests of the University (the Foundations). These related foundations are not-for-profit corporations controlled by separate boards of directors. The University determined that the following nine foundations qualify as component units of the University because of the nature and significance of their relationship with the University, including their ongoing financial support of the University. As such, they are presented discretely in the financial statements as of and for the year ended June 30, 2018.

- University of Virginia Law School Foundation
- The College Foundation of the University of Virginia
- University of Virginia Darden School Foundation
- Alumni Association of the University of Virginia
- Jefferson Scholars Foundation
- Virginia Athletics Foundation
- University of Virginia Foundation
- University of Virginia Physicians Group
- University of Virginia Investment Management Company

The component units' combined financial information is included in the accompanying financial statements. Condensed financial statements for each component unit are disclosed in Note 8. Information on the organization and nature of activities for each component unit follows.

The **University of Virginia Law School Foundation (Law School Foundation)** was established to foster the study and teaching of law at the University and to receive and administer funds for that purpose. It expends funds to support professorships, faculty benefits, financial aid, student activities and other academic programs within the University's Law School. For additional information, contact the Law School Foundation Treasurer's Office at Slaughter Hall, 580 Massie Road, Charlottesville, VA 22903.

The **College Foundation of the University of Virginia (College Foundation)** was formed to further the purposes and aspirations of the College and Graduate School of Arts and Sciences (the College) of the University. It accomplishes its purposes through fundraising and funds management efforts to benefit the College, its programs and other areas of the University. For additional information, contact the College Foundation at P.O. Box 400801, Charlottesville, VA 22904.

The **University of Virginia Darden School Foundation (Darden School Foundation)** was established to promote the advancement and further the aims and purposes of the Colgate Darden Graduate School of Business Administration of the University and to provide education for business executives. For additional information, contact the Darden School Foundation at P.O. Box 7726, Charlottesville, VA 22906

The **Alumni Association of the University of Virginia (Alumni Association)** was established to provide services to all alumni of the University, thereby assisting the University and all its students, faculty and administration in attaining the University's highest priority of achieving eminence as a center of higher learning. For additional information, contact the Alumni Foundation's Finance and Administration Office at P.O. Box 400314, Charlottesville, VA 22904.

The **Jefferson Scholars Foundation (JSF)** was established to develop and administer a merit-based scholarship, fellowship and professorship program. The mission of the JSF is to serve the University by identifying, attracting and nurturing individuals of extraordinary intellectual range and depth, who possess the highest concomitant qualities of leadership, scholarship and citizenship. For additional information, contact the JSF Finance Team at P.O. Box 400891, Charlottesville, VA 22904.

The **Virginia Student Aid Foundation, Inc., T/A Virginia Athletics Foundation (VAF)**, was established to support intercollegiate athletic programs at the University by providing student-athletes the opportunity to achieve academic and athletic excellence. It provides funding for student-athlete scholarships, funding for student-athlete academic advising programs, operational support for various sports, informational services to its members and the general public, and ancillary support to the athletic programs. VAF has adopted December 31 as its year end. All amounts reflected are as of December 31, 2017. For additional information, contact the VAF Gift Accounting Office at P.O. Box 400833, Charlottesville, VA 22904.

The **University of Virginia Foundation (UVAF)**, including the University of Virginia Real Estate Foundation, was established to provide administrative services to the University and supporting organizations; engage in any and all matters pertaining to real property for the benefit of the University; and use and administer gifts, grants and bequests, and devises for the benefit of the University. For additional information, contact the UVAF Financial Services Office at P.O. Box 400833, Charlottesville, VA 22904.

The **University of Virginia Physicians Group (UPG)** was established as a nonprofit group practice health care provider organization designed to assist medical education through teaching and research within the academic environment of the Health System of the University. It also strives to coordinate and develop superior patient care in the Health System. UPG entered into an affiliation agreement with the University for UPG, through its member clinical departments, to provide patient care at the Health System. UPG provides patient care services to Health System patients, and in conjunction with the care of patients, provides teaching services. The University provides space and certain administrative services to UPG, which reimburses the University for the salaries and fringe benefits of classified and hourly employees of the clinical departments paid by the University and not funded by the Commonwealth or by gifts, grants and contracts. For additional information, contact the UPG Finance Office at 4105 Lewis & Clark Drive, Charlottesville, VA 22911.

The **University of Virginia Investment Management Company (UVIMCO)** was established to provide investment management services to the University and University foundations. For additional information, contact UVIMCO at P.O. Box 400215, Charlottesville, VA 22904.

REPORTING BASIS AND MEASUREMENT FOCUS

The University prepares its financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP). As a public institution, the University adheres to standards promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the University has elected to report as an entity engaged in business-type activities. Entities engaged in business-type activities are financed in whole or in part by fees charged to external parties for goods and services. Statement No. 34 establishes standards for external financial reporting for public colleges and universities.

The accompanying financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues, including all exchange and nonexchange transactions, are recorded when earned, and expenses are recorded when incurred and measurable, regardless of when the related cash flows take place. In accordance with GASB requirements, revenues from nonexchange transactions are recognized in the fiscal year in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

The component units included herein follow the pronouncements of the Financial Accounting Standards Board (FASB). Their financial statements are presented in accordance with those standards and use the full accrual basis of accounting.

FAIR VALUE MEASUREMENTS

The University follows the guidance in GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value and establishes guidelines and a framework for measuring fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University categorizes its fair value measurements within the fair value hierarchy established by Statement No. 72. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 – Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets as of the reporting date.

Level 2 – Inputs are observable, for example, for quoted prices for similar assets or liabilities in active markets or for identical assets or liabilities in inactive markets.

Level 3 – Inputs are unobservable, reflecting the assumptions of management and are significant to the fair value measurement.

The University establishes the fair value of its investments in investment funds that do not have a readily determinable fair value by using net asset value (NAV) per share (or its equivalent) as reported by the external fund manager when NAV per share is calculated as of the measurement date in a manner consistent with the FASB's measurement principles for investment companies. These investments are not reported in the fair value hierarchy.

CASH AND CASH EQUIVALENTS

In addition to cash on deposit in commercial bank accounts, petty cash and undeposited receipts, cash and cash equivalents include cash on deposit with fiscal agents and investments with original maturities of ninety days or less. Substantially all cash is concentrated in accounts in which balances exceed Federal Deposit Insurance Corporation (FDIC) insurance limits.

INVESTMENTS

The University invests with UVIMCO and other asset managers. Investments are recorded at market value. Certain less marketable investments, such as private equity investments, are generally carried at estimated values as determined by management. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments.

Investments with UVIMCO are in the Long-Term Pool (LTP), which is a unitized investment pool. The LTP commingles endowment, charitable trusts and other investments of the University and the Foundations. Assets of the LTP are pooled on a fair value basis in accordance with U.S. GAAP and unitized monthly. Deposits and withdrawals are also processed monthly. Each depositor subscribes to or disposes of units on the basis of the value per unit at fair value as calculated on the last calendar day of the month in which a deposit or redemption request is received by UVIMCO. LTP transactions are subject to the notification requirements and caps set forth in the deposit and management agreement between the University and UVIMCO. Under the agreement, an annual withdrawal cap exists equal to the sum of ten percent of the previous fiscal year-end market value plus ten percent of the current fiscal year's deposits. Additionally, the University is subject to a monthly withdrawal cap of the greater of three percent of its investment in the pool at the previous month-end or $15 million. Withdrawal requests in excess of an amount greater than one percent of its investment in the pool as of the previous month-end require 30 days' written notice. Withdrawal requests for lesser amounts must be received in writing on or before the trade date.

PLEDGES RECEIVABLE

The University receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Endowment pledges do not meet eligibility requirements, as defined by GASB standards, and are not recorded as assets until the related gift is received.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance for uncollectible pledges receivable is determined based on management's judgment of potentially uncollectible amounts. The determination includes such factors as prior collection history and the type of gift.

PREPAID EXPENSES

Prepaid expenses are items paid for in the current year, but for which the underlying asset will not be entirely consumed until a future period. The University's prepaid expenses for fiscal year ended June 30, 2018 included prepaid insurance premiums, various prepayments to vendors, and prepaid rent.

INVENTORIES

Inventories, consisting primarily of supplies and merchandise for resale, are valued at the lower of cost (generally determined on the weighted average method) or market value.

CAPITAL ASSETS AND DEPRECIATION

Capital assets are recorded at acquisition value on the date of acquisition or, if donated, at the appraised value on the date of donation. Capital assets are depreciated or amortized on a straight-line basis over their estimated useful lives unless they are inexhaustible or are intangible assets with indefinite useful lives. The University capitalizes construction costs that have a value or cost in excess of $250,000 on the date of acquisition. Renovations in excess of $250,000 are capitalized if they significantly extend the useful life of the existing asset. The Academic Division and the College at Wise capitalize moveable equipment at a value or cost of $5,000 and an expected useful life of greater than one year.

The Medical Center capitalizes moveable equipment at a value or cost of $2,000 and an expected useful life of two or more years. Maintenance or renovation expenditures of $250,000 or more are capitalized only to the extent that such expenditures prolong the life of the asset or otherwise enhance its capacity to render service.

Expenditures related to construction are capitalized as they are incurred. Projects that have not been completed as of the date of the Statement of Net Position are classified as Construction in Progress.

Capital assets, such as roads, parking lots, sidewalks, and other nonbuilding structures and improvements, are capitalized as infrastructure and depreciated accordingly.

In accordance with GASB standards, the University capitalizes intangible assets such as computer software developed or obtained for internal use, easements, patents and trademarks. Capitalization begins when the asset is considered identifiable. For computer software, this is often at the application development stage, which consists of the design, coding, installation, and testing of the software and interfaces.

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. Net interest capitalized for the fiscal year ended June 30, 2018, was $2.5 million.

The estimated useful lives of capital assets are as follows:

ASSETS	YEARS
Buildings, improvements other than buildings and infrastructure	10-50
Equipment	3-20
Intangible assets	5-20
Library books	10

COLLECTIONS

The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are protected and preserved, neither disposed of for financial gain, nor encumbered by any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

DEFERRED OUTFLOWS OF RESOURCES

Deferred outlfows of resources are a consumption of net assets that are applicable to a future reporting period and increase net position similar to assets.

DEPOSITS

Deposits held in custody for others represent cash and invested funds held by the University on behalf of others as a result of agency relationships with various groups and organizations.

UNEARNED REVENUE

Unearned revenue consists primarily of cash received from grant and contract sponsors that has not been earned under the terms of the agreement, and amounts received in advance of an event, such as student tuition and fees and fees for housing and dining services.

For fiscal year 2018, the University corrected its revenue recognition methodology on certain grants and contracts and recorded a $21.5-million reduction to the beginning balance of unearned revenues. This change in methodology more accurately recognizes these revenues as the University meets the performance obligations of the agreements.

COMPENSATED ABSENCES

The amount of leave earned but not taken by nonfaculty salaried employees is recorded as a liability on the Statement of Net Position. The amount reflects, as of June 30, 2018, all unused vacation leave, and the amount payable upon termination under the Commonwealth's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

LONG-TERM DEBT AND DEBT ISSUANCE COSTS

Long-term debt on the Statement of Net Position is reported net of related discounts and premiums, which are amortized over the life of the debt. Debt issuance costs, except portions related to prepaid insurance, are expensed as nonoperating expenses.

PENSIONS

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans for financial reporting purposes. For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the VRS State Employee Retirement Plan and the VaLORS Retirement Plan, and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position, have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by VRS are reported at fair value.

Full-time faculty and certain administrative staff may participate in defined contribution Optional Retirement Plans established by the University. University of Virginia employees must elect to be in the Optional Retirement Plan (ORP) within sixty days of becoming eligible. Medical Center employees are automatically placed in the Medical Center Retirement Program (MCRP), but may elect to continue in the VRS if they were already a participant prior to becoming eligible for the MCRP. Distributions from both the ORP and MCRP are made in accordance with Code Section 401(a)(9). Transactions and account balances are based on fair market value determined by Fidelity or TIAA-CREF.

OTHER POSTEMPLOYMENT BENEFITS

The University participates in other postemployment benefit (OPEB) programs that are sponsored by the Commonwealth and administered by the VRS. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Plan, Retiree Health Insurance Credit Program, and Line of Duty Act Program.

Group Life Insurance

The VRS Group Life Insurance (GLI) program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, which provides the authority under which benefit terms are established or may be amended. The GLI program is a defined benefit plan that provides a basic group life insurance benefit for employees or participating employers. For purposes of measuring the net GLI program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI Program OPEB, and GLI program OPEB expense, information about the fiduciary net position of the VRS GLI program OPEB and the additions to/deductions from the VRS GLI program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

State Employee Health Insurance Credit Program

The VRS State Employee Health Insurance Credit (HIC) program is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The HIC program was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, which provides the authority under which benefit terms are established or may be amended. The HIC program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired state employees.

For purposes of measuring the net HIC program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the HIC program OPEB, and the HIC program OPEB expense, information about the fiduciary net position of the VRS HIC program; and the additions to/deductions from the VRS HIC program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Line of Duty Act Program
The VRS Line of Duty Act (LODA) program is a multiple-employer, cost-sharing plan. The LODA program was established pursuant to §9.1-400 et seq. of the *Code of Virginia*, as amended, which provides the authority under which benefit terms are established or may be amended. The LODA program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net LODA program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the LODA program OPEB, and LODA program OPEB expense, information about the fiduciary net position of the VRS LODA program OPEB plan and the additions to/deductions from the VRS LODA program OPEB plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

VRS Disability Insurance Program
The VRS Virginia Sickness and Disability Plan (VSDP) program is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The VSDP program was established pursuant to §51.1-1100 et seq. of the *Code of Virginia*, as amended, which provides the authority under which benefit terms are established or may be amended. The VSDP program is a managed care program that provides sick, family and personal leave and short-term and long-term disability benefits for state police officers, state employees, and VaLORS employees. For purposes of measuring the net VSDP program OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to the VSDP program OPEB, and VSDP program OPEB expense, information about the fiduciary net position of the VRS VSDP program OPEB plan and the additions to/deductions from the VRS VSDP program OPEB plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

University OPEB Plans
The University also provides Optional Retirement Retiree Life Insurance and Retiree Health Plan OPEBs that are not part of the Commonwealth-provided OPEB plans. These are defined benefit plans not administered through a trust as defined in GASB Statement No. 75. The University's total OPEB liability, deferred outflows of resources related to OPEBs, deferred inflows of resources related to OPEBs, and OPEB expense are recognized and measured in accordance with the parameters of GASB Statement No.75. There are currently no assets accumulated in a trust for the University administered OPEBs.

IRREVOCABLE SPLIT-INTEREST AGREEMENTS

The University serves as the trustee for gift assets where there is a requirement that an annual distribution is made to specified beneficiaries. The fair value of trust assets, the liability for the obligation to the beneficiaries, and deferred inflows to the University are recorded in accordance with GASB Statement No. 81, *Irrevocable Split Interest Agreements.*

Additionally, the University shares beneficial interests with at least one other beneficiary in various trusts managed by third parties. The University recognizes an asset and a deferred inflow of resources when the University becomes aware of the agreement, has sufficient information to measure the beneficial interest, and the asset meets the specified criteria in GASB Statement No. 81. The assets are measured at fair value and remeasured at each financial reporting date, with the change being reflected in the related deferred inflow of resources.

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources are an acquisition of net assets that are applicable to a future reporting period and decrease net position similar to liabilities.

NET POSITION

The University's net position is required to be classified for accounting and reporting purposes into the following categories:

Net Investment in Capital Assets. This category represents all of the University's capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction or improvement of those assets.

Restricted. The University classifies the net position resulting from transactions with purpose restrictions as restricted net position until the specific resources are used for the required purpose, or for as long as the provider requires the resources to remain intact.
he asset or otherwise enhance its capacity to render service.

Nonexpendable. The net position subject to externally imposed restrictions, which must be retained in perpetuity by the University, is classified as nonexpendable net position. This includes the corpus portion (historical value) of gifts to the University's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested.

Expendable. The University's net position subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by the passage of time is classified as expendable net position. This includes net appreciation of the University's permanent endowment funds that has not been stipulated by the donor to be reinvested permanently.

Unrestricted. The net position that is neither restricted nor invested in capital assets, net of related debt, is classified as unrestricted net position. The University's unrestricted net position may be designated for specific purposes by the Board. Substantially all of the University's unrestricted net position is allocated for academic and research initiatives or programs, for capital programs, or for other purposes.

Expenses are charged to either restricted or unrestricted net position based on a variety of factors, including consideration of prior and future revenue sources, the type of expenditure incurred, the University's budgetary policies surrounding the various revenue sources, and whether the expense is a recurring cost.

STUDENT TUITION AND FEES

Student tuition and fees are presented net of scholarships, discounts and fellowships applied to student accounts. Scholarship discount and allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf.

MEDICAL CENTER SALES AND SERVICE

A significant portion of the Medical Center services is rendered to patients covered by Medicare, Medicaid or other third-party payors. The Medical Center has entered into contractual agreements with these third parties to accept payment for services in amounts less than scheduled charges. In accordance with these agreements, the difference between the contractual payments due and the Medical Center scheduled billing rates results in contractual adjustments. Patient care revenues are reported net of contractual allowances in the Statement of Revenues, Expenses and Changes in Net Position in the period in which the related services are rendered.

Certain annual settlements of amounts due for Medical Center services covered by third parties are determined through cost reports that are subject to audit and retroactive adjustment by the third parties. Provisions for possible adjustments of cost reports have been estimated and reflected in the accompanying financial statements. Because the determination of settlements in prior years has been based on reasonable estimation, the difference in any year between the originally estimated amount and the final determination is reported in the year of determination as an adjustment to Medical Center revenues. Laws and regulations governing Medicare and Medicaid are complex and subject to interpretation.

REVENUE AND EXPENSE CLASSIFICATIONS

The University's policy for defining operating activities as reported on the Statement of Revenues, Expenses and Changes in Net Position are those that generally result from activities having the characteristics of exchange transactions, meaning revenues are received in exchange for goods and services. Operating revenues include student tuition and fees, net of scholarship discounts and allowances; sales and services from Medical Center, net of charity care allowances; educational activities and auxiliary enterprises, net of scholarship discounts and allowances; and federal, state, local and nongovernmental grants and contracts. With the exception of interest expense and losses on the disposal of capital assets, all expense transactions are classified as operating expenses.

Certain significant revenues relied on and budgeted for fundamental operational support of the core institutional mission of the University are mandated by GASB requirements to be recorded as nonoperating revenues. Nonoperating revenues and expenses include state educational appropriations, state financing appropriations, federal Pell grants, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense, and gain or loss on the disposal of assets.

ELIMINATIONS

Certain auxiliary operations provide goods and services to internal customers. These auxiliary operations include activities such as central stores, the print shop, and other auxiliaries with interdepartmental activities. The net effect of these internal transactions has been eliminated in the Statement of Revenues, Expenses and Changes in Net Position to avoid inflating revenues and expenses.

COMPARATIVE DATA

The University presents its financial information on a comparative basis. The basic financial statements include certain prior-year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with U.S. GAAP. Accordingly, the prior-year information should be read in conjunction with the University's financial statements as of and for the year ended June 30, 2017, from which the summarized information was derived. Certain amounts from the prior fiscal year have been reclassified to conform to current-year presentation. Also, the summarized comparative information presented does not include the necessary adjustments related to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, GASB Statement No. 81, Irrevocable Split-Interest Agreements*, and correction to unearned revenue as mentioned in the Unearned Revenue section, for the 2017 financial statements to be comparative with the 2018 financial statements. The information needed to make these adjustments is not available for prior years.

CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2018, the University implemented the following pronouncements issued by the GASB.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed and expanded. The University implemented GASB Statement No. 75 prospectively beginning with the period ended June 30, 2018, with a $170.9 million net OPEB liability and $13.8 million net OPEB asset for a net decrease in beginning net position for VRS administered OPEBs of $157.1 million. The University also recognized a $28.5 million total OPEB liability as a beginning net position adjustment for University administered OPEBs.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. GASB Statement No. 81 provides accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement, assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party if the government controls the present service capacity of the beneficial interests, and revenue when the resources become applicable to the reporting period. The University had previously only recorded the assets and liabilities associated with irrevocable split-interest agreements in which it served as trustee in accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis --for State and Local Governments*. The effect of the implementation of GASB Statement No. 81 on the University's financial statements was a decrease to beginning net position of $35.5 million.

GASB Statement No. 85, *Omnibus*. GASB Statement No. 85 address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). GASB Statement No. 85 did not have a material impact on the University for the year ended June 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issue*. GASB Statement No. 86 addresses in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB Statement No. 86 did not affect the University for the year ended June 30, 2018.

NOTE 2 CASH, CASH EQUIVALENTS, INVESTMENTS AND ENDOWMENT

CASH

The University deposits cash in commercial banking accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq., *Code of Virginia*. The Virginia Security for Public Deposits Act significantly diminishes any custodial risk on the University's banking deposits. This Act includes a cross guarantee among approved financial institutions eligible to hold public funds. In the event of a default of one of the approved financial institutions, an assessment is levied against all participating institutions to cover the uncollateralized public deposits of the defaulting entity. This cross guarantee significantly diminishes custodial credit risk. Amounts on deposit covered by the Virginia Security of Public Deposits Act totaled $62 million on June 30, 2018.

CASH EQUIVALENTS

The University maintains an investment policy approved by the Board that governs its short-term investments. As part of this policy, the University complies with the provisions set forth in the Investment of Public Funds Act (the Act), Sections 2.2-4500 through 2.2-4518 of the *Code of Virginia*. It is the policy of the University to comply with the Act when investing tuition and educational fees that are used or required for day-to-day operations, as permitted under the *Code of Virginia* Section 23-76.1. Authorized investments under the Act include U.S. Treasury and agency securities, corporate debt securities of domestic corporations, asset-backed securities, mortgage-backed securities, AAA-rated obligations of foreign governments, bankers' acceptances and bank notes, negotiable certificates of deposit, repurchase agreements, and money market funds. The University considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents include short-term money market investments in mutual funds, overnight collective funds or other short-term, highly liquid investments registered as securities held by the University. The short-term investments of the University are valued on a daily basis by the custodian banks. Deposits and withdrawals may be processed daily.

Restricted cash and cash equivalents totaled $130.4 million and $13.2 million on June 30, 2018, and June 30, 2017, respectively, which is restricted in accordance with applicable debt or other contractual requirements.

RISK

Risks disclosed below are direct risks to the University. The risk disclosure does not include indirect risks incurred by investing in the UVIMCO LTP.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution or financial counterparty, the agency will not be able to recover the value of its deposits or investments or recover collateral securities that are in the possession of an outside third party. The University had a very limited exposure to custodial credit risk as of June 30, 2018.

Interest-rate risk results if changes in interest rates adversely affect the fair market value of an investment. The longer the duration of an investment, the greater the interest-rate risks. Investments subject to interest-rate risk at June 30, 2018, are outlined in the accompanying chart.

Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. State law limits the investment of certain nonendowed assets to short-term commercial paper, certificates of deposit, asset-backed securities and debt obligations to the top rating issued by nationally recognized statistical rating organizations (NRSROs) and requires the investment be rated by at least two NRSROs. For longer-term certificates of deposit and corporate notes, the rating must be one of the top two ratings issued by two NRSROs. Investments subject to credit risk at June 30, 2018, are outlined in the accompanying chart.

Concentration of credit risk is the risk of a large loss attributed to the magnitude of investment in a single issuer of fixed-income securities. The University minimizes this risk by diversifying its investments. As of June 30, 2018, the University does not have investments in any one issuer (excluding investments issued or explicitly guaranteed by the U.S. government and mutual fund or pool investments) representing 5 percent or more of its total investments.

Foreign currency risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University has no foreign investments or deposits as of June 30, 2018.

Details of the University's investment risks as of June 30, 2018 are outlined below:

CREDIT QUALITY AND INTEREST RATE RISK *(in thousands)*	**BALANCE AT JUNE 30, 2018**	**CREDIT RATING**	**INVESTMENT MATURITIES (IN YEARS)**			
			LESS THAN 1 YEAR	**1 - 5 YEARS**	**6 - 10 YEARS**	**GREATER THAN 10 YEARS**
CASH AND CASH EQUIVALENTS						
Cash on hand	$ 383	Not Applicable	N/A	N/A	N/A	N/A
Cash deposits	77,588	Not Applicable	N/A	N/A	N/A	N/A
University of Virginia Aggregate Cash Pool	117,295	Not Applicable	N/A	N/A	N/A	N/A
TOTAL CASH AND CASH EQUIVALENTS	**$ 195,266**		**$ -**	**$ -**	**$ -**	**$ -**
SHORT-TERM INVESTMENTS						
Cash deposits	$ 269	Not Applicable	N/A	N/A	N/A	N/A
Other investments not subject to credit or interest rate risk	68	Not Applicable	N/A	N/A	N/A	N/A
TOTAL SHORT-TERM INVESTMENTS	**$ 337**		**$ -**	**$ -**	**$ -**	**$ -**
LONG-TERM INVESTMENTS						
UVIMCO LTP	$ 2,708,301	Not Rated	N/A	N/A	N/A	N/A
Other investments not subject to credit or interest rate risk	91,752	Not Applicable	N/A	N/A	N/A	N/A
TOTAL LONG-TERM INVESTMENTS	**$ 2,800,053**		**$ -**	**$ -**	**$ -**	**$ -**
ENDOWMENT						
Cash and cash equivalents	$ 1,666	Not Applicable	$ 1,666	$ -	$ -	$ -
UVIMCO LTP	4,822,908	Not Rated	N/A	N/A	N/A	N/A
Other investments not subject to credit or interest rate risk	13,568	Not Applicable	N/A	N/A	N/A	N/A
TOTAL ENDOWMENT	**$ 4,838,142**		**$ 1,666**	**$ -**	**$ -**	**$ -**

INVESTMENTS

UVIMCO administers and manages the majority of the University's investments in its unitized investment pool. From time to time, the University also invests its operating funds with a number of other asset managers. At June 30, 2018, the University's investment in the LTP was $7.5 billion representing 96 percent of the University's invested assets. These pools are not rated by NRSROs.

UVIMCO's primary investment objective for the LTP is to maximize long-term real return commensurate with the risk tolerance of the University. To obtain this objective, UVIMCO actively manages the LTP in an attempt to achieve returns that consistently exceed the returns on a passively investable benchmark with similar asset allocation and risk. UVIMCO is governed by a board of directors, three of whom are appointed by the Board and one of whom is appointed by the University's president. The University receives and monitors periodic reports on the long-term investment policy as executed by UVIMCO.

UVIMCO invests primarily in investment funds that allow the LTP to gain exposure to a broad array of financial instruments and markets. UVIMCO classifies LTP investments as public equity, long/short equity, buyout, growth equity, venture capital, real estate, resources, fixed income, or marketable alternatives and credit according to the investment strategy of the underlying manager. These investments are subject to a variety of risks, including market risk, manager risk and liquidity risk. UVIMCO closely manages and monitors the LTP's exposure to these risks. The risks may be influenced by a number of factors, including the size, composition and diversification of positions held, fund manager actions, and market volatility.

In the normal course of business, UVIMCO's external investment fund managers trade various financial instruments and enter into investment activities subject to various market risks. Market risk is the risk that the value of assets such as common stocks may fall. Fixed-income investments are subject to other market risks, including interest-rate and credit risk. Foreign investments are subject to currency exchange rates (foreign exchange risk), political and economic developments, limited legal recourse, and market risks. The prices of derivative positions such as futures, options, warrants and swap contracts may move in unexpected ways due to the use of leverage or other factors, especially in unusual market conditions, and may result in increased volatility.

Manager risk includes tracking error or active positions away from the benchmark, operational or business risks, a lack of transparency, and leverage. UVIMCO mitigates manager risk through extensive due diligence, diversification, by declining certain partnership structures, and by avoiding certain investment strategies (e.g., highly leveraged hedge funds). UVIMCO's investment fund managers often limit the liquidity of their funds, resulting in liquidity risk for the LTP. UVIMCO manages liquidity risk by maintaining a portfolio of Treasury bills and bonds, maintaining sufficient liquidity with public equity funds and hedge funds, and managing the pace of commitments to private investments.

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The University had the following recurring fair value measurements as of June 30, 2018:

INVESTMENTS AND DERIVATIVE INSTRUMENTS MEASURED AT FAIR VALUE *(in thousands)*	BALANCE AT JUNE 30, 2018	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	INVESTMENTS MEASURED AT NAV*	AMOUNTS NOT MEASURED AT FAIR VALUE
SHORT-TERM INVESTMENTS						
Cash deposits	$ 269	$ -	$ -	$ -	$ -	$ 269
Equity securities	68	68	-	-	-	-
TOTAL SHORT-TERM INVESTMENTS	**$ 337**	**$ 68**	**$ -**	**$ -**	**$ -**	**$ 269**
LONG-TERM INVESTMENTS						
Life insurance contracts**	$ 3,646	$ -	$ -	$ -	$ -	$ 3,646
Investments in affiliates	88,907	-	-	-	-	88,907
Equity securities	9	-	-	9	-	-
UVIMCO LTP	2,708,301	-	-	-	2,708,301	-
TOTAL LONG-TERM INVESTMENTS	**$ 2,800,053**	**$ -**	**$ -**	**$ 9**	**$ 2,708,301**	**$ 91,743**
ENDOWMENT						
Cash and cash equivalents	$ 1,666	$ -	$ 975	$ -	$ -	$ 691
Equity securities	988	953	-	35	-	-
UVIMCO LTP	4,822,908	-	-	-	4,822,908	-
Exchange traded funds	12,580	12,580	-	-	-	-
TOTAL ENDOWMENT	**$ 4,838,142**	**$ 13,533**	**$ 975**	**$ 35**	**$ 4,822,908**	**$ 691**
INVESTMENT DERIVATIVE INSTRUMENTS* **						
Fixed-receiver interest rate swaps	$ (2,709)	$ -	$ (2,709)	$ -	$ -	$ -
Fixed-payer interest rate swaps	(25,181)	-	(25,181)	-	-	-
TOTAL INVESTMENT DERIVATIVE INSTRUMENTS	**$ (27,890)**	**$ -**	**$ (27,890)**	**$ -**	**$ -**	**$ -**

** Certain investments that are measured at fair value using the NAV per share (or its equivalent) have not been categorized in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Net Position.*

*** Investments in life insurance contracts are measured at cash surrender value.*

**** Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates.*

The valuation method for investments measured at NAV per share or its equivalent is presented on the following table:

INVESTMENTS MEASURED AT NET ASSET VALUE (NAV) *(in thousands)*	**BALANCE AT JUNE 30, 2018**	**UNFUNDED COMMITMENTS**	**REDEMPTION FREQUENCY (IF CURRENTLY ELIGIBLE)**	**REDEMPTION NOTICE PERIOD**
UVIMCO LTP	$ 7,531,209	$ -	Monthly	(a)
TOTAL INVESTMENTS MEASURED AT NAV	**$ 7,531,209**	**$ -**		

(a) Subject to the notification requirements and caps set forth in the deposit and management agreement between the University and UVIMCO as discussed in Note 1.

ENDOWMENT

The market value of the endowment on June 30, 2018, was $4.8 billion. Biannual distributions are made from the University's endowment to departments holding endowment accounts. The University's endowment spending policy ties annual increases to inflation as defined by the Higher Education Price Index. The current inflation factor in use by the University is 1.96 percent. If the increase causes the endowment distribution to fall outside a range defined as 4.0 percent to 6.0 percent of the market value of the endowment, then the Finance Committee of the Board may recommend increasing or decreasing the spending rate. For fiscal year 2018, the endowment spending distribution of $205.8 million, excluding agency funds, equaled 5.04 percent of the fiscal year 2016 ending market value. Since the results fell within the range, no further action by the board was needed.

For the year ended June 30, 2018, the University had the following endowment-related activities:

SUMMARY OF ENDOWMENT ACTIVITY *(in thousands)*	**TYPE OF ENDOWMENT FUND**				
	DONOR-RESTRICTED	**QUASI**	**TRUSTS**	**AGENCY**	**TOTAL**
Investment earnings	$ 226,305	$ 250,022	$ 7,865	$ 2,809	$ 487,001
Contributions to permanent endowments	53,543	-	-	-	53,543
Other gifts	-	-	1,299	-	1,299
Spending distribution	(97,718)	(108,047)	-	(1,530)	(207,295)
Endowment administrative fee*	(9,442)	(10,489)	-	-	(19,931)
Transfers in (out)**	17,422	67,463	(5,933)	482	79,434
TOTAL CHANGE IN ENDOWMENT FUNDS	**$ 190,110**	**$ 198,949**	**$ 3,231**	**$ 1,761**	**$ 394,051**

** The University has implemented an administrative fee on the endowment of 50 basis points. The fee is distributed to units for departmental support of endowments.*
*** Transfers into donor-restricted endowments include donor-directed income capitalizations, and transfers out of trusts include payments to income beneficiaries.*

NOTE 3 STATEMENT OF NET POSITION DETAILS

a. Accounts receivable: The composition of accounts receivable at June 30, 2018, is summarized as follows:

ACCOUNTS RECEIVABLE *(in thousands)*	
Patient care	$ 791,964
Grants and contracts	54,946
Student payments	13,557
Pledges	5,400
Institutional loans	1,369
Build America Bonds rebate	916
Equipment Trust Fund reimbursement	15,898
Auxiliary	1,687
Related foundation	18,856
Service concession arrangements	4,552
Other	41,830
Less: Allowance for doubtful accounts	(554,273)
TOTAL ACCOUNTS RECEIVABLE	**$ 396,702**

b. Notes receivable: The principal repayment and interest-rate terms of federal and University loans vary considerably. The allowance for doubtful accounts only applies to University-funded notes and the University portion of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. Federal loan programs are funded principally with federal advances to the University under the Perkins and various other loan programs. The composition of notes receivable at June 30, 2018, is summarized as follows:

NOTES RECEIVABLE *(in thousands)*	
Perkins	$ 14,405
Nursing	1,438
Institutional	19,034
Fraternity loan	622
Dues from related foundation	5,685
Less: Allowance for doubtful accounts	(1,955)
Total notes receivable, net	**39,229**
Less: Current portion, net of allowance	(6,113)
TOTAL NONCURRENT NOTES RECEIVABLE	**$ 33,116**

c. Pledges and other receivables: As discussed in Note 1, permanent endowment pledges do not meet eligibility requirements, as defined by GASB requirements, until the related gift is received. Accordingly, permanent endowment pledges totaling $88.5 million and $7.2 million at June 30, 2018, and June 30, 2017, respectively, are not recognized as assets in the accompanying financial statements. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation. The composition of pledges and other receivables at June 30, 2018, is summarized as follows:

PLEDGES AND OTHER RECEIVABLES *(in thousands)*	
PLEDGES AND OTHER RECEIVABLES OUTSTANDING	
Gift pledges - Operations	$ 9,082
Gift pledges - Capital	4,563
Service concession arrangements	14,508
Total pledges and other receivables outstanding	**28,153**
Less:	
Allowance for uncollectible accounts	(1,762)
Unamortized discount to present value	(2,391)
Total pledges and other receivable, net	**24,000**
Less: Current portion, net of allowance	(9,335)
TOTAL NONCURRENT PLEDGES AND OTHER RECEIVABLES	**$ 14,665**

d. Capital assets: The capital assets activity for the year ended June 30, 2018, is summarized as follows:

CAPITAL ASSETS *(in thousands)*	BEGINNING BALANCE JULY 1, 2017	INCREASES	DECREASES	ENDING BALANCE JUNE 30, 2018
NONDEPRECIABLE CAPITAL ASSETS				
Land	$ 65,026	$ 14,589	$ -	$ 79,615
Construction in progress	305,032	371,194	(250,115)	426,111
Software in development	16,352	500	(1,848)	15,004
TOTAL NONDEPRECIABLE CAPITAL ASSETS	**386,410**	**386,283**	**(251,963)**	**520,730**
DEPRECIABLE CAPITAL ASSETS				
Buildings	3,978,042	174,169	(27,437)	4,124,774
Equipment	904,432	100,745	(67,781)	937,396
Infrastructure	518,743	22,271	-	541,014
Improvements other than buildings	166,393	20,484	(44)	186,833
Capitalized software	189,544	59,914	(366)	249,092
Library books	123,093	834	-	123,927
Total depreciable capital assets	**5,880,247**	**378,417**	**(95,628)**	**6,163,036**
Less: Accumulated depreciation for:				
Buildings	(1,501,950)	(121,082)	22,263	(1,600,769)
Equipment	(626,107)	(69,516)	62,447	(633,176)
Infrastructure	(223,226)	(15,399)	-	(238,625)
Improvements other than buildings	(130,264)	(9,818)	2,480	(137,602)
Capitalized software	(160,757)	(15,957)	5	(176,709)
Library books	(110,925)	(3,155)	-	(114,080)
Total accumulated depreciation	**(2,753,229)**	**(234,927)**	**87,195**	**(2,900,961)**
TOTAL DEPRECIABLE CAPITAL ASSETS, NET	**3,127,018**	**143,490**	**(8,433)**	**3,262,075**
TOTAL CAPITAL ASSETS, NET	**$ 3,513,428**	**$ 529,773**	**$ (260,396)**	**$ 3,782,805**

e. Other assets: The composition of other assets on June 30, 2018, is summarized as follows:

OTHER ASSETS *(in thousands)*	
Funds held at foundation	$ 43,145
Trustee held split-interest agreement assets	3,638
UVA Global LLC	2
TOTAL OTHER ASSETS	**$ 46,785**

f. Deferred outflows of resources: The composition of deferred outflows of resources on June 30, 2018, is summarized as follows:

DEFERRED OUTFLOWS OF RESOURCES *(in thousands)*	
Goodwill	$ 16,654
Deferred loss on early retirement of debt	34,188
OPEB	30,090
Pension	73,455
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$ 154,387**

In July 2004, the Medical Center purchased Virginia Ambulatory Surgery Center, now known as Virginia Outpatient Surgery Center. As a result of the purchase, the Medical Center recorded $6.9 million of goodwill to be amortized over a period of 40 years.

In November 2004, the Medical Center purchased Amherst and Lynchburg renal facilities. As a result of the purchase, the Medical Center recorded goodwill of $3.4 million and $4 million, respectively. The goodwill is to be amortized over a period of 20 years.

In April 2017, the previously acquired Hematology Oncology Patient Enterprises, Inc. (HOPE) was absorbed into the Medical Center's normal clinical operations. Goodwill remaining from the acquisition of HOPE will be amortized over a period of 15 years beginning April 1, 2017.

g. Accounts payable and accrued liabilities: The composition of accounts payable on June 30, 2018, is summarized as follows:

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES *(in thousands)*	
Accounts payable	$ 102,112
Accrued salaries and wages payable	84,894
Due to related foundations	59,538
Due to third party payors	80,883
Other payables	26,856
TOTAL ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**$ 354,283**

h. Unearned revenue: The composition of unearned revenue on June 30, 2018, is summarized as follows:

UNEARNED REVENUE *(in thousands)*	
Grants and contracts	$ 39,596
Student payments	17,834
Medical Center unearned revenues	862
Other unearned revenues	15,788
TOTAL UNEARNED REVENUE	**$ 74,080**

i. Deferred inflows of resources: The composition of deferred inflows on June 30, 2018, is summarized as follows:

DEFERRED INFLOWS OF RESOURCES *(in thousands)*	
Deferred gain on early retirement of debt	$ 413
Service concession arrangements	65,494
Split-Interest agreements	14,736
Pension	38,308
OPEB	14,725
TOTAL DEFERRED INFLOWS OF RESOURCES	**$ 133,676**

During the year ended June 30, 2015, the University entered into an agreement with Aramark Educational Services, LLC (Aramark) for Aramark to provide dining services to the University. In return for use of University facilities, Aramark is required to make certain payments to the University and the University is required to provide certain repair and maintenance services related to the facilities during the term of the agreement. In accordance with GASB requirements, as of June 30, 2018, the University has accrued a $13 million receivable, an $11.2 million liability and a $65.5 million deferred inflow of resources related to the service concession arrangement.

NOTE 4 SHORT-TERM DEBT

Short-term debt at June 30, 2018, is summarized as follows:

SHORT-TERM DEBT *(in thousands)*	BEGINNING BALANCE JULY 1, 2017	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2018
COMMERCIAL PAPER				
Taxable	$ 12,745	$ 276,100	$ 175,000	$ 113,845
Tax-exempt	73,550	110,900	176,450	8,000
TOTAL COMMERCIAL PAPER	**$ 86,295**	**$ 387,000**	**$ 351,450**	**$ 121,845**

The University has a $300 million combined taxable and tax-exempt commercial paper program that is primarily used to bridge finance capital projects and, from time to time, fund operations. The Board approved the current commercial paper program limit of $300 million in April 2008. In fiscal year 2018, interest rates on commercial paper ranged from 0.78 to 2.04 percent.

NOTE 5 LONG-TERM OBLIGATIONS

a. Long-term debt: The composition of long-term debt at June 30, 2018, is summarized as follows:

LONG-TERM DEBT *(in thousands)*	**INTEREST RATES AT ISSUANCE**	**FINAL MATURITY FISCAL YEAR**	**BEGINNING BALANCE JULY 1, 2017**	**ADDITIONS**	**REDUCTIONS**	**ENDING BALANCE JUNE 30, 2018**	**CURRENT PORTION**
BONDS AND NOTES PAYABLE							
Revenue bonds:							
University of Virginia Series 2009 (9d)	4.17%*	2040	$ 250,000	$ -	$ -	$ 250,000	$ -
University of Virginia Series 2010 (9d)	3.37%**	2041	190,000	-	-	190,000	-
University of Virginia Series 2011 (9d)	4.0% to 5.0%	2033	63,985	-	2,790	61,195	2,935
University of Virginia Series 2013A (9d)	2.0% to 5.0%	2043	161,670	-	3,135	158,535	2,420
University of Virginia Series 2013B (9d)	5.0%	2037	61,595	-	-	61,595	-
University of Virginia Series 2015A-1 (9d)	4.0%	2045	86,995	-	-	86,995	-
University of Virginia Series 2015A-2 (9d)	3.57% to 5.0%	2045	97,735	-	-	97,735	-
University of Virginia Series 2015B (9d)	2.0% to 5.0%	2022	106,910	-	-	106,910	-
University of Virginia Series 2017A (9d)	4.0% to 5.0%	2047	231,780	-	-	231,780	-
University of Virginia Series 2017B (9d)	4.0% to 5.0%	2046	123,440	-	-	123,440	-
University of Virginia Series 2017C (9d)	4.2%	2118	-	300,000	-	300,000	-
University of Virginia Series 2018A (9d)	4.0%	2049	-	64,080	-	64,080	-
University of Virginia Series 2018B (9d)	4.0%	2049	-	135,920	-	135,920	-
Commonwealth of Virginia bonds (9c)	3.8% to 9.3%	2021	1,936	-	623	1,313	651
Notes payable to VCBA 2007B (9d)	4.0% to 4.25%	2020	10,525	-	3,605	6,920	3,390
Notes payable to VCBA 2010B (9d)	2.0% to 5.0%	2021	3,435	-	-	3,435	-
Other	various	2029	2,418	-	180	2,238	185
Total bonds and notes payable			**$ 1,392,424**	**$ 500,000**	**$ 10,333**	**$ 1,882,091**	**$ 9,581**
Less: Current portion of debt			(10,333)	-	(752)	(9,581)	
Bond premium			125,189	6,272	8,142	123,319	
NET LONG-TERM DEBT			**$ 1,507,280**	**$ 506,272**	**$ 17,723**	**$ 1,995,829**	

** The University of Virginia Series 2009 (9d) revenue bonds are Build America Bonds, issued at 6.2 percent. The University receives an interest credit from the United States Treasury for a portion of the interest it pays on the bonds. On issuance of the bonds, the University received an interest credit of 35 percent. This amount has been reduced as noted in the footnote below. With the current credit, the effective interest rate on the bonds is reduced to 4.17 percent.*

*** The University of Virginia Series 2010 (9d) revenue bonds are Build America Bonds, issued at five percent. The University receives an interest credit from the United States Treasury for a portion of the interest it pays on the bonds. On issuance of the bonds, the University received an interest credit of 35 percent. This amount has been reduced as noted in the footnote below. With the current credit, the effective interest rate on the bonds is reduced to 3.37 percent.*

At its June 2017 meeting, the University's Board of Visitors approved a shelf registration program for issuing up to $500 million in bonds in fiscal year 2017-18 at fixed coupon rates up to 5.5 percent.

On September 28, 2017, under the shelf registration, the University issued $300 million in taxable General Revenue Pledge Bonds, Series 2017C. The 2017C Series was issued to advance fund new construction on the grounds of the University and miscellaneous operating expenses. The bonds were issued with a coupon rate of 4.179 percent and a final maturity date of September 1, 2117.

On May 4, 2018, under the shelf registration, the University issued Series 2018A tax-exempt General Revenue Pledge Bonds of $64.08 million to refund $65.75 million of tax-exempt commercial paper. The bonds were issued with a premium of $2.01 million and a coupon rate of 4 percent and a final maturity date of August 1, 2048.

On May 4, 2018, under the shelf registration, the University issued Series 2018B tax-exempt General Revenue Pledge Bonds of $135.92 million to refund $110.70 million of tax-exempt commercial paper and advance fund $28.77 million of new construction on the grounds of the University. The bonds were issued with a premium of $4.26 million and a coupon rate of 4 percent and a final maturity date of August 1, 2048.

The University has three revolving credit agreements from three different banks in an aggregate amount of $200 million to provide liquidity for its variable-rate debt obligations. There were no advances outstanding under these credit agreements as of June 30, 2018.

The University has $300 million of operating lines of credit from four different banks to provide liquidity for operating expenses. There were no advances outstanding under these credit agreements as of June 30, 2018.

Maturities and interest on notes and bonds payable for the next five years and in subsequent five-year periods are as follows:

FISCAL YEAR MATURITIES *(in thousands)*	**PRINCIPAL**	**INTEREST**	**BUILD AMERICA BONDS INTEREST REBATE**	**NET INTEREST EXPENSE**
2019*	$ 9,581	$ 88,192	$ (8,173)	$ 80,019
2020	9,656	89,813	(8,173)	81,640
2021	9,889	89,351	(8,173)	81,178
2022	113,302	86,400	(8,173)	78,227
2023	6,673	83,553	(8,173)	75,380
2024-2028	26,418	413,554	(40,862)	372,692
2029-2033	30,797	406,955	(40,862)	366,093
2034-2038	176,860	392,277	(40,862)	351,415
2039-2043	673,940	263,070	(15,363)	247,707
2044-2048	424,975	134,418	-	134,418
2049-2053	100,000	64,685	-	64,685
2054-2058	-	62,685	-	62,685
2059-2063	-	62,685	-	62,685
2064-2068	-	62,685	-	62,685
2069-2073	-	62,685	-	62,685
2074-2078	-	62,685	-	62,685
2079-2083	-	62,685	-	62,685
2084-2088	-	62,685	-	62,685
2089-2093	-	62,685	-	62,685
2094-2098	-	62,685	-	62,685
2099-2103	-	62,685	-	62,685
2104-2108	-	62,685	-	62,685
2109-2113	-	62,685	-	62,685
2114-2118	300,000	56,417	-	56,417
TOTAL	**$ 1,882,091**	**$ 2,920,905**	**$ (178,814)**	**$ 2,742,091**

** Fiscal year 2018 represents a 6.9 percent reduction in the credit interest payment for September 1, 2017, and a 6.6 percent reduction in the credit interest payment for March 1, 2018. The 6.6 percent sequestration reduction rate will be applied to all future years unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change.*

Prior Year Refundings: As of June 30, 2018, prior years' in-substance defeased bonds and notes had no outstanding balances.

b. Long-term liabilities: The composition of long-term liabilities at June 30, 2018, is summarized as follows:

LONG-TERM LIABILITIES *(in thousands)*	**BEGINNING BALANCE JULY 1, 2017**	**ADDITIONS**	**REDUCTIONS**	**ENDING BALANCE JUNE 30, 2018**
Investments held for related entities	$ 17,760	$ 2,915	$ 1,149	$ 19,526
Accrual for compensated absences	83,433	98,453	91,365	90,521
Perkins loan program	10,855	-	1,808	9,047
Investment in Culpeper Regional Hospital	45,000	-	4,273	40,727
Irrevocable split-interest agreements	61,787	12,699	3,738	70,748
Service concession arrangements	12,085	-	841	11,244
Other	29,674	8,081	13,449	24,306
Total long-term liabilities	**$ 260,594**	**$ 122,148**	**$ 116,623**	**$ 266,119**
Less: Current portion of long-term liabilities	(85,413)	(6,533)		(91,946)
NET LONG-TERM LIABILITIES	**$ 175,181**	**$ 115,615**	**$ 116,623**	**$ 174,173**

NOTE 6 DERIVATIVES

The University recognizes all derivative instruments as either assets or liabilities on the Statement of Net Position at their respective fair values. Changes in fair values of hedging derivative instruments are reported as either deferred inflows or deferred outflows in the Statement of Net Position. Changes in fair values of investment derivative instruments, including derivative instruments that are determined to be ineffective, are reported as investment income or loss on the Statement of Revenues, Expenses and Changes in Net Position. On June 30, 2018, the University held the following derivative instruments:

(in thousands)

EFFECTIVE DATE	**MATURITY DATE**	**RATE PAID**	**RATE RECEIVED**	**NOTIONAL AMOUNT**	**FAIR VALUE ASSET (LIABILITY)**	**CHANGE IN FAIR VALUE**
INVESTMENT DERIVATIVE INSTRUMENTS - FIXED-RECEIVER INTEREST RATE SWAPS:						
4/8/2015	8/1/2021	SIFMA*	1.2%	$ 64,000	$ (1,355)	$ (1,076)
4/8/2015	8/1/2021	SIFMA*	1.2%	64,000	(1,354)	(1,076)
INVESTMENT DERIVATIVE INSTRUMENTS - FIXED-PAYER INTEREST RATE SWAPS:						
6/1/2008	6/1/2038	4.15%	SIFMA*	50,000	(12,902)	2,958
6/1/2008	6/1/2038	4.07%	SIFMA*	50,000	(12,279)	2,924
TOTAL DERIVATIVE INSTRUMENTS				**$ 228,000**	**$ (27,890)**	**$ 3,730**

* *Securities Industry and Financial Markets Municipal Swap Index*

The fair value of the interest-rate swaps was determined by using the quoted Securities Industry and Financial Markets Association (SIFMA) index curve at the time of market valuation. The University's fixed-receiver swaps were identified as hedges to its fixed-rate Series 2015B bonds maturing in August 2021. The swaps were re-evaluated as of June 30, 2016, and determined to no longer be effective hedges. The fixed-payer swaps were established as cash flow hedges to provide a hedge against changes in interest rates on a similar amount of the University's debt. During the year ended June 30, 2015, the University refunded the associated variable-rate debt for the fixed-payer swaps. As such, the fixed-payer interest rate swaps are no longer effective hedges. In accordance with GASB standards, the University terminated hedge accounting for both the fixed-receiver and fixed-payer swaps. Subsequent changes in fair value are reported as investment income or loss in the Statement of Revenues, Expenses and Changes in Net Position.

RISK

The use of derivatives may introduce certain risks for the University, including the following:

Credit risk is the risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter. The University would be exposed to the credit risk of its swap counterparties any time the swaps had a positive market value. As of June 30, 2018, the University's swap counterparties were rated at least BBB+ from Standard & Poor's or A3 by Moody's Investors Service. To mitigate credit risk, the University limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. As of June 30, 2018, no collateral was required to be posted by the counterparties.

Interest-rate risk is the risk that an investment's value will change due to a change of interest rates. The University is exposed to interest-rate risk on its interest-rate swap, as the fair value of this instrument is highly sensitive to interest-rate changes. See Note 2 for additional interest rate risk disclosures.

Termination risk arises when the unscheduled termination of a derivative could have an adverse effect on the University's strategy or could lead to potentially significant unscheduled payments. The University's derivative contracts use the International Swap Dealers Association Master Agreement (the Master Agreement), which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an additional termination event. That is, the swap may be terminated by either party if the counterparty's credit rating falls below BBB/Baa2 in the case of Standard & Poor's and Moody's Investors Service, respectively. The University or the counterparty may also terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative market value, the University would be liable to the counterparty for a payment equal to the swaps' market value.

Foreign currency risk is the risk of a swap's value changing due to changes in currency exchange rates. The University's derivatives have no foreign currency risk.

NOTE 7 AFFILIATED COMPANIES

CULPEPER REGIONAL HOSPITAL / NOVANT HEALTH UNIVERSITY OF VIRGINIA HEALTH SYSTEM

Culpeper Regional Hospital is a 60-bed community hospital providing primary care, as well as specialty services in orthopedics, cardiology and cancer. On December 31, 2008, the Medical Center and Culpeper Regional Hospital entered into a partnership agreement, whereby the Medical Center obtained a 49 percent interest in Culpeper Regional Hospital, with a $41.2 million investment. The Medical Center used the equity method of consolidation to reflect the Medical Center's investment in Culpeper Regional Hospital until September 30, 2014.

On October 1, 2014, the Medical Center acquired the remaining 51 percent of Culpeper Regional Hospital for $45 million, providing Culpeper and surrounding communities a new level of care that includes expanded services and greater access to specialty providers. Effective October 1, 2014, the Medical Center accounted for Culpeper Regional Hospital using the consolidation method of accounting.

On December 31, 2015, the Medical Center entered into a joint operating agreement with Novant Health to form a new joint operating company named, Novant Health University of Virginia Health System (Novant). As part of the agreement, the Medical Center contributed Culpeper Regional Hospital to the joint operating company for a 40 percent investment in the new joint operating company, recognizing a $12.9 million gain as a result of the transfer. Effective January 1, 2016, the Medical Center used the equity method of consolidation in order to reflect the Medical Center's investment in the joint operating company.

CENTRAL VIRGINIA HEALTH NETWORK, INC.

In May 1995, the Medical Center joined the Central Virginia Health Network, Inc. (CVHN), a partnership of eight Richmond-area hospitals. CVHN was formed to provide an efficient and coordinated continuum of care, with services ranging from acute hospital treatment to primary physician care and home health services.

The Medical Center originally paid $100 for 10,000 shares of common stock and $109,900 as additional paid-in capital. In addition, the Medical Center is obligated for monthly dues to CVHN of $15,913. In December 2017, CVHN was dissolved and the dissolution check was recorded in June 2018. Complete financial statements can be obtained from the registered agent: Steven D. Gravely, Esq., Mezzullo and McCandlish, P.O. Box 796, Richmond, VA 23206.

UNIVERSITY OF VIRGINIA / HEALTHSOUTH, LLC

The Medical Center entered into a joint venture with HEALTHSOUTH Corporation to establish an acute rehabilitation facility, located at the Fontaine Research Park in Charlottesville, Virginia, to provide patient services to the region. The Medical Center made a capital contribution of $2.2 million to the joint venture in May 1996, which represents a 50 percent interest. Complete financial statements can be obtained from the managing member: HEALTHSOUTH Corporation, 7700 East Parham Road, Richmond, VA 23294.

VALIANCE HEALTH, LLC

In November 1997, the Medical Center became a participant with Rockingham Memorial Hospital and Augusta Health Care, Inc., in Valiance Health, LLC (Valiance), a joint venture integrating and coordinating the delivery of health care services in central and western Virginia. The Medical Center contributed $100,000 in initial capital, which entitles it to a pro rata distribution of any profits and losses of Valiance. In October 2003, the Medical Center contributed an additional $400,000 in capital to Valiance, bringing the Medical Center's total investment to $500,000. Valiance Health, LLC has been dissolved pending receipt of the final dissolution settlement.

UNIVERSITY HEALTH SYSTEM CONSORTIUM

In December 1986, the Medical Center became a member of the University Health System Consortium (UHC). Founded in 1984, UHC is an alliance of the clinical enterprises of academic health centers. While focusing on the clinical mission, UHC is mindful of and supports the research and education missions. The mission of UHC is to advance knowledge, foster collaboration and promote change to help members compete in their respective health care markets. In keeping with this mission, UHC helps members pool resources, create economies of scale, improve clinical and operating efficiencies, and influence the direction and delivery of health care. Accordingly, UHC is organized and operated on a cooperative basis for the benefit of its patron-member health systems.

UHC is a not-for-profit organization. It is incorporated as a nonstock corporation and designated as a nonexempt cooperative that is taxable under Subchapter T, Sections 1382–1388, of the Internal Revenue Code. As such, UHC's bylaws provide for distributions of patronage dividends to its patrons based on the value of business done with or for each patron by UHC. The Medical Center records its portion of the patronage dividends that were held by UHC as patronage equity.

CHARLOTTESVILLE PROGRAM OF ALL-INCLUSIVE CARE FOR THE ELDERLY

The Medical Center contributed $245,000 for a 24.5 percent investment in the Charlottesville Program of All-Inclusive Care for the Elderly (PACE). The program delivers various medical and support services to senior residents in Charlottesville and surrounding counties. Patients in the program have an alternative to residential nursing home care providing daily access to doctors and physical therapists, home health care, and personal care. Charlottesville PACE financial transactions are recorded by the Medical Center using the equity method of accounting. PACE was dissolved in June 2018.

VALLEY REGIONAL HEALTH / MARY WASHINGTON HOSPITAL / UNIVERSITY OF VIRGINIA RADIOSURGERY CENTER, LLC

The Medical Center has entered into 10 percent minority interest partnerships with Winchester Medical Center and Mary Washington Hospital. Winchester Medical Center and Mary Washington Hospital have expanded their cancer programs with the addition of stereotactic radiosurgery (SRS) and stereotactic body radiotherapy (SBRT), offered in partnership with the Medical Center. By collaborating with nationally recognized leaders in SRS, this advanced non-surgical technology is available to patients who would have otherwise had to travel to receive care.

HEALTHCARE PARTNERS, INC.

In May 1995, HealthCare Partners, Inc., a nonstock, nonprofit corporation, was established to support networking, external business relationships with neighboring hospitals and physicians groups, and expansion of primary care activities. The Medical Center and UPG are the primary contributors to the funding of the corporation. The corporation is governed by a board of directors composed of Medical Center staff, UPG representatives, community members and University Board appointees.

During the May 2014 Board Meeting for HealthCare Partners, Inc., a resolution was passed for HealthCare Partners to acquire a 15 percent membership interest in BroadAxe Care Coordination, LLC, without imposing any obligations on the part of the UPG, for $599,925. On October 30, 2015, this transaction was processed, and is considered an equity contribution by the Medical Center and HealthCare Partners. BroadAxe, also known as Locus-Health Broad Axe, is a remote patient monitoring system used by the Medical Center to manage reduction with readmissions.

Details of the University's net investment in affiliated companies accounted for using the equity method of accounting as of June 30, 2018, is summarized below:

INVESTMENT IN AFFILIATED COMPANIES *(in thousands)*	**CAPITAL CONTRIBUTIONS**	**SHARE OF ACCUMULATED INCOME (LOSS)**	**NET INVESTMENT**
PACE	$ 245	$ (245)	$ -
Valley Regional Health	4	(5)	(1)
Valiance, LLC	249	-	249
University Health System Consortium	4,087	-	4,087
HEALTHSOUTH, LLC	-	18,806	18,806
Novant	94,041	(31,741)	62,300

GLOBAL GENOMICS AND BIOFORMATICS RESEARCH INSTITUTE

In December 2016, the University, Inova Health System Foundation, and George Mason University established the Global Genomics and Bioinformatics Research Institute (GGBRI) as a joint venture governed by a five-member board of directors. GGBRI's mission is to improve the quality of the human condition and its environment through research focused on generating fundamental knowledge to further the understanding of genetics and functional genomics, disseminating discoveries to the public, and enabling scientific collaborations that have potential to culminate in the commercialization.

The GGBRI will be located at the campus of the Inova Center for Personalized Health in Falls Church, Virginia. In June 2018, the University agreed to contribute $53.5 million to retrofit Building C into laboratory and ancillary research space and $4 million for the recruitment of high performing researchers. The University was also appropriated and allotted $20 million in VCBA funds in August 2017 in accordance with Item C-52.10 and 478.20 of Chapter 780 of the 2016 Acts of Assembly, as amended by Chapter 836 of the 2017 Acts of Assembly. The Commonwealth will also contribute $8 million to UVA for immediate transfer to the GGBRI for recruitment of high performing researchers.

As of June 30, 2018, the University has made no contributions to the GGBRI.

NOTE 8 COMPONENT UNITS

Summary financial statements and additional disclosures for the University's discretely presented component units are presented below.

STATEMENT OF FINANCIAL POSITION *(in thousands) as of June 30, 2018*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	THE COLLEGE FOUNDATION OF THE UNIVERSITY OF VIRGINIA	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	ELIMINATIONS	COMPONENT UNITS TOTAL
ASSETS											
Current assets											
Total current assets	**$ 2,486**	**$ 19,341**	**$ 25,434**	**$ 55,846**	**$ 12,696**	**$ 26,534**	**$ 16,744**	**$ 126,402**	**$ 262,645**	**$ -**	**$ 548,128**
Noncurrent assets											
Long-term investments	512,856	111,869	347,627	303,335	357,299	72,774	115,316	251,518	9,279,015	(1,726,040)	9,625,569
Capital assets, net and other assets	24,490	15,108	68,761	20,021	54,442	25,023	317,915	35,615	412	(6,919)	554,868
Total noncurrent assets	**537,346**	**126,977**	**416,388**	**323,356**	**411,741**	**97,797**	**433,231**	**287,133**	**9,279,427**	**(1,732,959)**	**10,180,437**
TOTAL ASSETS	**$ 539,832**	**$ 146,318**	**$ 441,822**	**$ 379,202**	**$ 424,437**	**$ 124,331**	**$ 449,975**	**$ 413,535**	**$ 9,542,072**	**$(1,732,959)**	**$10,728,565**
LIABILITIES AND NET ASSETS											
Current liabilites											
Total current liabilities	**$ 564**	**$ 693**	**$ 13,840**	**$ 117,414**	**$ 12,519**	**$ 1,352**	**$ 80,626**	**$ 91,104**	**$ 5,097**	**$ -**	**$ 323,209**
Noncurrent liabilities											
Long-term debt, net of debt issuance cost and current portion of $9,438	-	-	5,838	-	22,500	-	135,249	-	-	-	163,587
Other noncurrent liabilities	486	-	-	3,005	21,501	-	90,559	194,663	9,520,851	(1,732,959)	8,098,106
Total noncurrent liabilities	**486**	**-**	**5,838**	**3,005**	**44,001**	**-**	**225,808**	**194,663**	**9,520,851**	**(1,732,959)**	**8,261,693**
TOTAL LIABILITIES	**$ 1,050**	**$ 693**	**$ 19,678**	**$ 120,419**	**$ 56,520**	**$ 1,352**	**$ 306,434**	**$ 285,767**	**$ 9,525,948**	**$(1,732,959)**	**$ 8,584,902**
NET ASSETS											
Unrestricted	$ 77,020	$ 1,512	$ 89,655	$ 77,821	$ (5,297)	$ 27,835	$ 52,749	$ 127,768	$ 16,124	$ -	$ 465,187
Temporarily restricted	294,225	63,400	172,506	104,362	152,737	52,678	76,016	-	-	-	915,924
Permanently restricted	167,537	80,713	159,983	76,600	220,477	42,466	14,776	-	-	-	762,552
TOTAL NET ASSETS	**538,782**	**145,625**	**422,144**	**258,783**	**367,917**	**122,979**	**143,541**	**127,768**	**16,124**	**-**	**2,143,663**
TOTAL LIABILITIES AND NET ASSETS	**$ 539,832**	**$ 146,318**	**$ 441,822**	**$ 379,202**	**$ 424,437**	**$ 124,331**	**$ 449,975**	**$ 413,535**	**$ 9,542,072**	**$ (1,732,959)**	**$ 10,728,565**

* *December 31, 2017, year-end*

STATEMENT OF ACTIVITIES *(in thousands)* *for the year ended June 30, 2018*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	THE COLLEGE FOUNDATION OF THE UNIVERSITY OF VIRGINIA	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
UNRESTRICTED REVENUES AND SUPPORT										
Contributions	$ 3,769	$ 6,220	$ 4,330	$ 969	$ 83	$ 14,731	$ 70	$ -	$ -	$ 30,172
Fees for services, rentals, and sales	-	-	18,724	4,423	-	1,109	51,328	404,607	12,914	493,105
Other revenues	26,902	12,241	25,162	61,534	14,840	23,064	32,634	97,912	1,560	295,849
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**30,671**	**18,461**	**48,216**	**66,926**	**14,923**	**38,904**	**84,032**	**502,519**	**14,474**	**819,126**
EXPENSES										
Program services, lectures, and special events	19,094	17,135	43,009	53,994	15,911	35,518	32,207	389,067	12,030	617,965
Other expenses	4,685	1,630	7,206	7,665	1,486	3,764	27,673	93,697	4,357	152,163
TOTAL EXPENSES	**23,779**	**18,765**	**50,215**	**61,659**	**17,397**	**39,282**	**59,880**	**482,764**	**16,387**	**770,128**
EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**6,892**	**(304)**	**(1,999)**	**5,267**	**(2,474)**	**(378)**	**24,152**	**19,755**	**(1,913)**	**48,998**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS										
Contributions	5,244	3,408	4,951	30,056	2,595	24,087	700	-	-	71,041
Other	19,582	(66)	11,540	(25,345)	22,238	(14,110)	2,736	-	-	16,575
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**24,826**	**3,342**	**16,491**	**4,711**	**24,833**	**9,977**	**3,436**	**-**	**-**	**87,616**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS										
Contributions	5,045	1,806	3,772	9,371	7,801	1,386	-	-	-	29,181
Other	(1,087)	(99)	-	232	1,032	919	-	-	-	997
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**3,958**	**1,707**	**3,772**	**9,603**	**8,833**	**2,305**	**-**	**-**	**-**	**30,178**
CHANGE IN NET ASSETS	**35,676**	**4,745**	**18,264**	**19,581**	**31,192**	**11,904**	**27,588**	**19,755**	**(1,913)**	**166,792**
Net assets - beginning of year	503,106	140,880	403,880	239,202	336,725	111,075	115,953	108,013	18,037	1,976,871
NET ASSETS - END OF YEAR	**$ 538,782**	**$ 145,625**	**$ 422,144**	**$ 258,783**	**$ 367,917**	**$ 122,979**	**$ 143,541**	**$ 127,768**	**$ 16,124**	**$2,143,663**

* *December 31, 2017, year-end*

PLEDGES RECEIVABLE

Unconditional promises to give (pledges) are recorded as receivables and revenues and are assigned to net asset categories based on the presence or absence of donor-imposed restrictions. Pledges expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promise was received and then remain consistent throughout the pledge's life. The component units record an allowance against pledges receivable for estimated uncollectible amounts. UPG does not accept gifts. Unconditional promises to give at June 30, 2018, are as follows:

PLEDGES RECEIVABLE *(in thousands)*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	THE COLLEGE FOUNDATION OF THE UNIVERSITY OF VIRGINIA	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	COMPONENT UNITS TOTAL
Total pledges receivable	**$ 15,012**	**$ 28,451**	**$ 12,778**	**$ 10,355**	**$ 13,975**	**$ 28,200**	**$ 108,771**
Less:							
Allowance for uncollectible accounts	(377)	(3,198)	(1,317)	(5,750)	(573)	(1,594)	(12,809)
Unamortized discount to present value	(2,340)	(4,095)	(783)	(203)	(591)	(780)	(8,792)
Total pledges receivable, net	**12,295**	**21,158**	**10,678**	**4,402**	**12,811**	**25,826**	**87,170**
Less: Current portion, net of allowance	(2,330)	(9,832)	(4,261)	(2,784)	(4,845)	(9,775)	(33,827)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$ 9,965**	**$ 11,326**	**$ 6,417**	**$ 1,618**	**$ 7,966**	**$ 16,051**	**$ 53,343**

* *December 31, 2017, year-end*

The Law School Foundation has received bequest intentions and certain other conditional promises to give of approximately $4.8 million as of June 30, 2018. These intentions and conditional promises to give are not recognized as assets, and if they are received, will generally be restricted for specific purposes stipulated by the donors, primarily endowments for scholarships and professorships.

INVESTMENTS

Investments are recorded at fair value, which is determined by readily available quotes on the stock exchange or as quoted by UVIMCO. Realized gains (losses) from the sale of securities and unrealized gains (losses) from the appreciation (depreciation) of the value of securities held are recognized in the year incurred. The fair values of investments by investment class on June 30, 2018, for the component units are as follows:

SUMMARY SCHEDULE OF INVESTMENTS *(in thousands)*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	THE COLLEGE FOUNDATION OF THE UNIVERSITY OF VIRGINIA	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	ELIMINATIONS	COMPONENT UNITS TOTAL
Common stocks, corporate notes, bonds, limited partnerships, and agency securities	$ 21	$ -	$ 16,211	$ 24,883	$ 3,421	$ -	$ -	$ 152,646	$3,343,146	$ -	$3,540,328
University of Virginia Investment Management Company	375,387	111,869	310,172	299,872	346,313	71,787	119,897	90,743	-	(1,726,040)	-
Mutual and money market funds	42,735	993	31,297	1,976	-	-	1,222	14,273	167,308	-	259,804
Other	94,713	-	-	7,233	7,565	987	3,472	-	6,026,209	-	6,140,179
Total investments	**512,856**	**112,862**	**357,680**	**333,964**	**357,299**	**72,774**	**124,591**	**257,662**	**9,536,663**	**(1,726,040)**	**9,940,311**
Less: Amounts shown in current assets	-	(993)	(10,053)	(30,629)	-	-	(9,275)	(6,144)	(257,648)	-	(314,742)
LONG-TERM INVESTMENTS	**$ 512,856**	**$ 111,869**	**$ 347,627**	**$ 303,335**	**$ 357,299**	**$ 72,774**	**$ 115,316**	**$ 251,518**	**$ 9,279,015**	**$ (1,726,040)**	**$9,665,569**

* *December 31, 2017, year-end*

UVIMCO has investments in limited partnership hedge funds, private equity, venture capital investments and similar private investment vehicles. These investments do not actively trade through established exchange mechanisms and are valued at NAV, based on UVIMCO's interest in the investee as determined and reported by the external manager of the investment. Such investments represent $8.4 billion on June 30, 2018. Because of the inherent uncertainty of such valuations, these estimated values may differ from the values that would have been used had a ready market for the investments existed, and such differences could be material.

CAPITAL ASSETS

Capital assets are recorded at cost, except donated property, which is recorded at fair market value at the date of the gift. Depreciation is taken over the estimated useful lives of the assets using the straight-line method. As of June 30, 2018, capital assets consisted of the following:

CAPITAL ASSETS *(in thousands)*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
Land	$ 152	$ -	$ 633	$ 4,242	$ -	$ 116,360	$ 3,279	$ -	$ 124,666
Buildings and improvements	914	110,337	8,177	19,906	-	295,560	40,022	1,566	476,482
Furnishings and equipment	331	3,179	2,131	1,650	55	26,816	24,185	1,379	59,726
Collections	-	101	-	65	-	-	-	-	166
Construction in progress	-	-	-	3,220	-	-	902	210	4,332
Total	**1,397**	**113,617**	**10,941**	**29,083**	**55**	**438,736**	**63,388**	**3,155**	**665,372**
Less: Accumulated depreciation	(444)	(51,859)	(6,253)	(6,460)	(48)	(123,260)	(33,838)	(2,743)	(224,905)
NET CAPITAL ASSETS	**$ 953**	**$ 61,758**	**$ 4,688**	**$ 22,623**	**$ 7**	**$ 315,476**	**$ 34,550**	**$ 412**	**$ 440,467**

* *December 31, 2017, year-end*

SHORT-TERM AND LONG-TERM DEBT

The foundations listed below had the following lines of credit available and outstanding as of June 30, 2018:

LINES OF CREDIT *(in thousands)*	AVAILABLE	CURRENT OUTSTANDING BALANCE	NONCURRENT OUTSTANDING BALANCE
UVAF			
Wells Fargo, N.A.	$ 34,000	$ -	$ 28,000
Bank of America, N.A.	85,000	50,927	-
U.S. Bank, N.A.	25,000	-	10,000
BB&T	35,000	-	25,000
Darden School Foundation			
Suntrust, N.A.	$ 3,000	$ -	$ -
UPG			
Virginia National Bank	$ 3,000	$ -	$ -
TOTAL	**$ 185,000**	**$ 50,927**	**$ 63,000**

The composition of the long-term debt of the component units on June 30, 2018, is summarized as follows:

LONG-TERM DEBT *(in thousands)*	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	JEFFERSON SCHOLARS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	COMPONENT UNITS TOTAL
University of Virginia Phase I and II	$ 8,678	$ -	$ -	$ -	$ 8,678
Notes payable U.S. Bank	-	-	23,375	-	23,375
Notes payable Wells Fargo	-	-	24,405	-	24,405
Recovery Zone Facility Bond	-	-	7,988	-	7,988
2000 Industrial Development Author	-	-	-	3,505	3,505
2004 Refinancing note payable	-	-	6,240	-	6,240
2011 Refinancing demand bonds	-	-	13,690	-	13,690
2017 Variable rate bank bonds	-	22,500	-	-	22,500
Total	**8,678**	**22,500**	**75,698**	**3,505**	**110,381**
Less: Current portion	(2,840)	-	(3,271)	(3,505)	(9,616)
NET LONG-TERM DEBT	**$ 5,838**	**$ 22,500**	**$ 72,427**	**$ -**	**$ 100,765**

Principal maturities of long-term debt obligations on June 30, 2018, are as follows:

MATURITIES *(in thousands)*	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	JEFFERSON SCHOLARS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	COMPONENT UNITS TOTAL
2019	$ 2,840	$ -	$ 3,271	$ 3,505	$ 9,616
2020	2,958	-	25,303	-	28,261
2021	2,880	-	2,162	-	5,042
2022	-	-	2,217	-	2,217
2023	-	-	5,911	-	5,911
Thereafter	-	22,500	36,834	-	59,334
TOTAL	**$ 8,678**	**$ 22,500**	**$ 75,698**	**$ 3,505**	**$ 110,381**

During the fiscal year 2017, the UVAF retrospectively adopted FASB Accounting Standards Update No. 2015-03 to present debt issuance cost as a reduction of the carrying amount of the debt rather than as an asset. Unamortized debt issuance cost as of June 30, 2018 and June 30, 2017 were $177,679 and $240,858, respectively.

LEASES

The University Foundations have several operating leases for buildings, equipment, and other property. Future minimum rental payments under the operating lease agreements are as follows:

LEASES *(in thousands)*	**UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION**	**UNIVERSITY OF VIRGINIA FOUNDATION**	**UNIVERSITY OF VIRGINIA PHYSICIANS GROUP**	**COMPONENT UNITS TOTAL**
2019	$ 2,629	$ 147	$ 3,357	$ 6,133
2020	2,719	133	2,570	5,422
2021	2,810	98	1,390	4,298
2022	2,903	10	563	3,476
2023	2,975	-	357	3,332
Thereafter	30,278	-	12,700	42,978
TOTAL	**$ 44,314**	**$ 388**	**$ 20,937**	**$ 65,639**

For fiscal year 2018, rental expense for all Foundations was $4.8 million.

SIGNIFICANT TRANSACTIONS WITH THE UNIVERSITY

The University provides certain services for the Darden School Foundation that are reimbursed by the Darden School Foundation monthly.

The University has entered into agreements with the Darden School Foundation in which the University has committed to reimburse the Darden School Foundation for any defaults the Darden School Foundation is required to pay under its student loan guarantee programs with three banks. As of June 30, 2018, there were outstanding student loan balances under the program of approximately $27 million. At the inception of the agreements with the banks, origination fees were used to fund reserve accounts that are to be used to cover subsequent student loan defaults. As of June 30, 2018, the reserve account balances totaled $403,062. No payments have been made to the Darden School Foundation related to student loan guarantee program defaults.

Direct payments to the University from the Alumni Association for the year ended June 30, 2018, totaled $2.6 million. This amount includes gift transfers, payment for facilities and services, and other support for University activities.

UPG has contracted with the University to provide certain professional and technical services. Payments received for these services were approximately $75.3 million for the year ended June 30, 2018. Approximately $15 million of the fiscal year payments were provided through the Medical Center for the purpose of treating indigent and Medicaid patients. UPG contributed approximately $32.6 million to the University in support of various academic programs, equipment, teaching and research for the year ended June 30, 2018.

In April 2017, the University and UVAF entered into an agreement where the University will reimburse UVAF for the purchase price of new aircraft. UVA makes lease payments to UVAF to cover the interest expense on UVAF's outstanding debt balance and is scheduled to pay $700,000 annually in principal payments through December 2027.

During fiscal year 2018, UVAF entered into an Investment Management Agreement with the University. Under the agreement, the University will, from time to time, deposit funds to be held in the custody and control of the Foundation, with the University retaining beneficial ownership of the funds. The funds will be invested and reinvested by the Foundation to the extent permitted by the agreement and provide other related services for or on behalf of the University, all for the benefit of the University. The total aggregate amount held by the Foundation shall not exceed $100 million. Furthermore, funds from the agreement were used to pay off the affiliated notes payable agreements. At June 30, 2018, the outstanding balance due to UVA was $43.2 million.

NOTE 9 EXPENSE CLASSIFICATION MATRIX

The composition of the University's operating expenses by functional classification for the year ended June 30, 2018, is as follows:

OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION *(in thousands)*	**COMPENSATION AND BENEFITS**	**SUPPLIES, UTILITIES, AND OTHER SERVICES**	**STUDENT AID**	**DEPRECIATION**	**OTHER**	**TOTAL**
Instruction	$ 406,093	$ 52,824	$ 5,546	$ -	$ 1,497	$ 465,960
Research	224,129	143,126	17,400	-	957	385,612
Public service	28,164	27,391	588	-	642	56,785
Academic support	136,832	40,561	525	-	328	178,246
Student services	36,152	13,603	312	-	205	50,272
Institutional support	118,833	56,970	208	-	464	176,475
Operation of plant	95,196	11,100	-	-	184	106,480
Student aid	3,484	4,581	75,304	-	160	83,529
Auxiliary	80,167	90,282	490	-	867	171,806
Depreciation	-	-	-	133,789	-	133,789
Patient services	714,172	750,570	-	98,687	-	1,563,429
Other	1,334	(9,247)	-	-	4	(7,909)
Central services recoveries	-	(21,797)	-	-	-	(21,797)
TOTAL OPERATING EXPENSES	**$ 1,844,556**	**$ 1,159,964**	**$ 100,373**	**$ 232,476**	**$ 5,308**	**$ 3,342,677**

NOTE 10 APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements.

A summary of state appropriations received by the University and the University's College at Wise, including all supplemental appropriations and reversions for the year ended June 30, 2018, is provided in the following chart:

APPROPRATIONS *(in thousands)*	
Original legislative appropriation per Chapter 836	$ 143,411
Adjustments:	
Financial aid - General Fund	14,467
Financial assistance for educational and general	10,571
TOTAL	**$ 168,449**

NOTE 11 RETIREMENT PLANS

VIRGINIA RETIREMENT SYSTEM

All full-time, salaried, permanent employees of state agencies and higher education institutions are automatically covered by the VRS State Employee Retirement Plan or the VaLORS Retirement Plan upon employment. These plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan: Plan 1, Plan 2 and Hybrid; and two different benefit structures for covered employees in the VaLORS Retirement Plan: Plan 1 and Plan 2. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr>
<td>Eligible Members

Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.

Hybrid Opt-In Election

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</td>
<td>Eligible Members

Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election

Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</td>
<td>Eligible Members

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
• State employees*
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

*Non-Eligible Members

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
• Members of the Virginia Law Officers' Retirement System (VaLORS)

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</td>
</tr>
<tr>
<td>Retirement Contributions

State employees, excluding state elected officials and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</td>
<td>Retirement Contributions

State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</td>
<td>Retirement Contributions

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</td>
</tr>
</table>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr>
<td>Vesting

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.</td>
<td>Vesting

Same as Plan 1.</td>
<td>Vesting

Defined Benefit Component:
Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit.

Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component:
Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

• After two years, a member is 50% vested and may withdraw 50% of employer contributions.
• After three years, a member is 75% vested and may withdraw 75% of employer contributions.
• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.</td>
</tr>
<tr>
<td>Calculating the Benefit

The Basic Benefit is calculated based on a formula using the member’s average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</td>
<td>Calculating the Benefit

See definition under Plan 1.</td>
<td>Calculating the Benefit

Defined Benefit Component:
See definition under Plan 1.

Defined Contribution Component:
The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</td>
</tr>
</table>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. **VaLORS:** The retirement multiplier for VaLORS employees is 1.7% or 2%.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2%.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **VaLORS:** Not applicable. **Defined Contribution Component:** Not applicable.
Normal Retirement Age **VRS:** Age 65. **VaLORS:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **VaLORS:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **VaLORS:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **VaLORS:** Age 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) In Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Cost-of-Living Adjustment (COLA) In Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1. **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) In Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2. **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS-refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exception: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute five percent of their compensation toward their retirement. Prior to July 1, 2012, the five percent member contribution was paid by the employer. Beginning July 1, 2012, state employees were required to pay the five percent member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2018, was 13.49 percent of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.05 percent of covered employee compensation. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of $162.4 million an accelerated payback of the deferred contribution in the 2010-12 biennium. The contribution rate for the VaLORS Retirement Plan also reflects the transfer in June 2016 of $16.5 million as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the University to the VRS State Employee Retirement Plan were $48 million and $46.2 million for the years ended June 30, 2018, and June 30, 2017, respectively. Contributions from the University to the VaLORS Retirement Plan were $649,117 and $665,471 for the years ended June 30, 2018, and June 30, 2017, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the University reported a liability of $500.7 million for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability (NPL) and a liability of $5.7 million for its proportionate share of the VaLORS Retirement Plan NPL. The NPL was measured as of June 30, 2017, and the total pension liability used to calculate the NPL was determined by an actuarial valuation as of that date. The University's proportion of the NPL was based on the University's actuarially determined employer contributions to the pension plan for the year ended June 30, 2017, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the University's proportion of the VRS State Employee Retirement Plan was 8.59 percent as compared to 8.28 percent at June 30, 2016. At June 30, 2017, the University's proportion of the VaLORS Retirement Plan was 0.87 percent as compared to 0.80 percent at June 30, 2016.

For the year ended June 30, 2018, the University recognized pension expense of $39.6 million for the VRS State Employee Retirement Plan and $609,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2016, and June 30, 2017, a portion of the pension expense was related to deferred amounts from changes in proportion and differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

YEAR ENDING JUNE 30 *(in thousands)*	**DEFERRED OUTFLOWS OF RESOURCES**	**DEFERRED INFLOWS OF RESOURCES**
Differences between expected and actual experience	$ 1,081	$ 15,190
Change in assumptions	4,867	369
Net difference between projected and actual earnings on pension plan investments	-	21,546
Changes in proportion and differences between Employer contributions and proportionate share of contributions	18,879	1,203
Employer contributions subsequent to the measurement date	48,628	-
TOTAL	**$ 73,455**	**$ 38,308**

Deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date of $48.6 million will be recognized as a reduction of the NPL in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

YEAR ENDING JUNE 30 *(in thousands)*	
2019	$ (12,433)
2020	9,106
2021	4,352
2022	(14,506)
TOTAL	**$ (13,481)**

Actuarial Assumptions: VRS State Employee Retirement Plan

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7 percent, net of pension plan investment expense, including inflation*

** Administrative expenses as a percentage of the market value of assets for the last experience study were found to be approximately 0.06 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7 percent. However, since the difference was minimal, and a more conservative 7 percent investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7 percent to simplify preparation of pension liabilities.*

Mortality rates:

Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85 percent of rates; females set back 1 year.
Post-Retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; males set forward 1 year; females set back 1 year with 1.5 percent increase compounded from ages 70 to 85.
Post-Disablement:	RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115 percent of rates; females 130 percent of rates.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table - RP - 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

Actuarial Assumptions: VaLORS Retirement Plan

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 4.75 percent
Investment rate of return	7 percent, net of pension plan investment expense, including inflation*

** Administrative expenses as a percentage of the market value of assets for the last experience study were found to be approximately 0.06 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7 percent. However, since the difference was minimal, and a more conservative 7 percent investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7 percent to simplify preparation of pension liabilities.*

Mortality rates:

Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90 percent of rates; females set forward 1 year.
Post-Retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; males set forward 1 year with 1 percent increase compounded from ages 70 to 90; females set forward 1 year.
Post-Disablement:	RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100 percent male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table - RP - 2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 50% to 35%

Net Pension Liability

The NPL is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans*, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows:

NET PENSION LIABILITY *(in thousands)*	**STATE EMPLOYEE RETIREMENT PLAN**	**VaLORS RETIREMENT PLAN**
Total pension liability	$ 23,617,412	$ 2,002,184
Less: Plan fiduciary net position	(17,789,888)	(1,345,887)
EMPLOYERS' NET PENSION LIABILITY	**$ 5,827,524**	**656,297**
Plan fiduciary net position as a percentage of the total pension liability	75.33%	67.22%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The NPL is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

ASSET CLASS (STRATEGY)	**TARGET ALLOCATION**	**ARITHMETIC LONG-TERM EXPECTED RATE OF RETURN PLAN**	**WEIGHTED AVERAGE LONG-TERM EXPECTED RATE OF RETURN**
Public equity	40%	4.54%	1.82%
Fixed income	15%	0.69%	0.10%
Credit strategies	15%	3.96%	0.59%
Real assets	15%	5.76%	0.86%
Private equity	15%	9.53%	1.43%
TOTAL	**100%**		**4.80%**
Inflation			2.50%
Expected arithmetic nominal return*			7.30%

** The above allocation provides a one-year return of 7.3 percent. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83 percent, including expected inflation of 2.5 percent.*

Discount Rate

The discount rate used to measure the total pension liability was 7 percent. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the University for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100 percent of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the VRS State Employee Retirement Plan NPL and the VaLORS Retirement Plan NPL using the discount rate of 7 percent, as well as what the University's proportionate share of the NPL would be if it were calculated using a discount rate that is one percentage point lower (6 percent) or one percentage point higher (8 percent) than the current rate:

SENSITIVITY OF NET PENSION LIABILITY *(in thousands)*	**1.00% DECREASE (6.00%)**	**CURRENT DISCOUNT RATE (7.00%)**	**1.00% INCREASE (8.00%)**
The University's proportionate share of the VRS State Employee Retirement Plan net pension liability	$ 739,617	$ 500,697	$ 300,079
The University's proportionate share of the VaLORS Retirement Plan net pension liability	7,937	5,689	3,831
TOTAL NET PENSION LIABILITY	**$ 747,554**	**$ 506,386**	**$ 303,910**

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at **https://www.varetire.org/Pdf/Publications/2017-annual-report.pdf**, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

The amount of payables outstanding to the VRS State Employee Retirement Plan and the VaLORS Retirement Plan at June 30, 2018, was approximately $1.3 million for legally required contributions into the plans.

OPTIONAL RETIREMENT PLANS

Full-time faculty and certain administrative staff may participate in Optional Retirement Plans, as authorized by the Code of Virginia, rather than the VRS retirement plans. The Optional Retirement Plans are defined contribution plans to which the University contributes an amount established by statute.

There are two defined contribution plans for eligible academic employees. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based on the employer's 10.4 percent contributions, plus interest and dividends. Plan 2 is for employees hired on or after July 1, 2010, and retirement benefits received are based on the employer's 8.9 percent contributions and the employee's five percent contributions, plus interest and dividends. For employees hired before July 1st, 2014, individual contracts issued under these plans provide for full and immediate vesting of both the University's and the employees' contributions. Employees hired after July 1st, 2014 are fully vested in the UVA contributions after two years of continuous employment.

Medical Center employees hired after July 1, 1999, cannot participate in Plan 1 or Plan 2 noted above but have the option of participating in the Medical Center's Optional Retirement Plan. This is a defined contribution plan where the retirement benefits received are based on the employer and employee contributions, all of which are paid by the Medical Center, plus interest and dividends. Medical Center employees are fully vested after one or two years of employment, depending on their date of hire.

Total pension costs under the Optional Retirement Plans were approximately $66.2 million and were calculated using base salaries of $880.8 million, for the year ended June 30, 2018. The contribution percentage amounted to 7.5 percent.

DEFERRED COMPENSATION PLANS

State employees may elect to participate in the Commonwealth's Deferred Compensation 457 Plan or the University's 403(b) Plan. Participating employees can contribute to either plan each pay period, with the Commonwealth matching at 50 percent up to $20 per pay period, or $40 per month. This dollar amount match can change depending on the funding available in the Commonwealth's budget. The Employer Matching Plan falls under Section 401(a) of the Internal Revenue Code. Employer contributions for University employees to the 401(a) plan were approximately $2.7 million for the year ended June 30, 2018.

The Deferred Compensation Plan for the University Medical Center employees hired on or after September 30, 2002, allows employee contributions up to four percent of their salary and an employer match of 50 percent of the employee's four percent deferral amount, not to exceed two percent of the employee's salary. Employer contributions under this plan were approximately $4.3 million for the year ended June 30, 2018.

The University of Virginia provides executive deferred compensation retirement benefits for certain officers and executives of the University and University Medical Center. The University makes contributions on behalf of each participant as determined by the Board of Visitors. For the year ended June 30, 2018, the University contributed $1.3 million to these accounts.

NOTE 12 POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

VIRGINIA RETIREMENT SYSTEM OTHER POSTEMPLOYMENT (OPEB) PLANS

As described in Note 1, the University employees participating in the VRS retirement plans are eligible for the VRS Group Life Insurance (GLI) program, State Employee Health Insurance Credit (HIC) program, Virginia Sickness and Disability Plan (VSDP) program, and Line of Duty Act (LODA) program. The specific information for each of the plans, including eligibility, coverage and benefits is set out in the table below:

VIRGINIA RETIREMENT SYSTEM OPEB PLAN PROVISIONS			
GLI	**HIC**	**LODA**	**VSDP**
Plan Description All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the GLI program upon employment. This plan is administered by the System, along with pensions and other OPEB plans, for public employer groups in the Commonwealth. In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI OPEB.	**Plan Description** All full-time, salaried permanent employees of state agencies are automatically covered by the VRS HIC program. This plan is administered by the System, along with pension and other OPEB plans, for public employer groups in the Commonwealth. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.	**Plan Description** All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the System, the State Police Officers' Retirement System (SPORS), or the VaLORS are automatically covered by the LODA. As required by statute, the VRS is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the System's actuary using anticipated program costs and the number of covered individuals associated with all participating employers.	**Plan Description** All full-time and part-time permanent salaried state employees who are covered under the System, the State Police Officers' Retirement System (SPORS), or the VaLORS hired on or after January 1, 1999 are automatically covered by the VSDP upon employment. The disability insurance program also covers state employees hired before January 1, 1999 who elected to transfer to VSDP rather than retain their eligibility to be considered for disability retirement. This plan is administered by the VRS, along with pensions and other OPEB plans, for public employer groups in the Commonwealth. Employees on work-related short-term disability receiving only a workers' compensation payment may be eligible to purchase service credit for this period if retirement contributions are not being withheld from the workers' compensation payment. The rate will be based on 5% of the employee's compensation.

VIRGINIA RETIREMENT SYSTEM OPEB PLAN PROVISIONS			
GLI	**HIC**	**LODA**	**VSDP**
Eligible Employees The GLI program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.	**Eligible Employees** The HIC program was established January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit. Employees who retire after being on long-term disability under VSDP must also have at least 15 years of service credit to qualify for the health insurance credit as a retiree. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.	**Eligible Employees** The eligible employees of the LODA program are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the VRS, the SPORS, or the VaLORS.	**Eligible Employees** The VSDP program, also known as the Disability Insurance Trust Fund, was established January 1, 1999 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent salaried state employees covered under VRS, SPORS and VaLORS (members new to VaLORS following its creation on October 1, 1999, have been enrolled since the inception of VSDP). • State employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement. • Public college and university faculty members who elect the VRS defined benefit plan. They may participate in the VSDP program or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP. Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work-related short-term disability benefits and certain income-replacement levels. A state employee who is approved for VSDP benefits on or after the date that is five years prior to his or her normal retirement date is eligible for up to five years of VSDP benefits.

VIRGINIA RETIREMENT SYSTEM OPEB PLAN PROVISIONS			
GLI	**HIC**	**LODA**	**VSDP**
Benefit Amounts The benefits payable under the GLI program have several components: • **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit. • **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option.	**Benefit Amounts** The HIC program provides the following benefits for eligible employees: • **At Retirement** – For State employees who retire, the monthly benefit is $4 per year of service per month with no cap on the benefit amount. • **Disability Retirement** – For State employees, other than state police officers, who retire on disability or go on long-term disability under the VSDP program, the monthly benefit is $120 or $4 per year of service, whichever is higher. For State police officers employees with a non-work-related disability who retire on disability or go on long-term disability under the VSDP program the monthly benefit is $120 or $4 per year of service, whichever is higher. For State police officers employees with a work-related disability, there is no benefit provided under the HIC program if the premiums are being paid under the LODA program. However, they may receive the credit for premiums paid for other qualified health plans.	**Benefit Amounts** The LODA program provides death and health insurance benefits for eligible individuals: • **Death** – The LODA death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: • $100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after. • $25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date. • An additional $20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001. • **Health Insurance** – The LODA program provides health insurance benefits through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health Benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the LODA program.	**Benefit Amounts** The VSDP program provides the following benefits for eligible employees: • Leave – Sick, family and personal leave. Eligible leave benefits are paid by the employer. • Short-Term Disability – The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer. • Long-Term Disability – The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the VSDP program. • Income Replacement Adjustment – The program provides for an income replacement adjustment to 80% for catastrophic conditions. • VSDP Long-Term Care Plan – The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

VIRGINIA RETIREMENT SYSTEM OPEB PLAN PROVISIONS			
GLI	**HIC**	**LODA**	**VSDP**
Reduction in Benefit Amounts The benefit amounts provided to members covered under the GLI program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.	**Reduction in Benefit Amounts** Not applicable	**Reduction in Benefit Amounts** Not applicable	**Reduction in Benefit Amounts** Not applicable
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the GLI program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.	**Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)** Not applicable	**Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)** Not applicable	**Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)** During periods an employee receives long-term disability benefits, the LTD benefit may be increased annually by an amount recommended by the actuary and approved by the Board. • Plan 1 employees vested as of 1/1/2013 – 100% of the VRS Plan 1 COLA (The first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%). • Plan 1 employee non-vested as of 1/1/2013, Plan 2 and Hybrid Plan employees – 100% of the VRS Plan 2 and Hybrid COLA (The first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%). For participating full-time employees taking service retirement, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement. • 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4% For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement • 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4%.

CONTRIBUTIONS

The contribution requirements for the GLI program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the GLI program from the University were $2.1 million and $2.1 million for the years ended June 30, 2018 and June 30, 2017, respectively.

The contribution requirement for the HIC program active employees is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2018 was 1.18% of covered employee compensation for employees in the HIC program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the University to the HIC program were $14.7 million and $13.8 million for the years ended June 30, 2018 and June 30, 2017, respectively.

The contribution requirements for the LODA program are governed by §9.1-400.1 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the LODA program for the year ended June 30, 2018 was $567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the LODA program from the University were $34,936 and $31,442 for the years ended June 30, 2018 and June 30, 2017, respectively.

The contribution requirements for the VSDP program are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the VSDP program for the year ended June 30, 2018 was 0.66 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contriutions to the VSDP program from the University were $2 million and $1.9 million for the years ended June 30, 2018 and June 30, 2017, respectively.

OPEB LIABILITIES, OPEB EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO VRS OPEB PLANS

At June 30, 2018, the University reported a liability of $192.5 million for its proportionate share of the Net OPEB Liability (NOL) for GLI, HIC, and LODA Programs. At June 30, 2018, the University reported an asset of $15.4 million for its proportionate share of the Net VSDP OPEB Asset (NOA). The NOL/NOA was measured as of June 30, 2017 and the total OPEB liability used to calculate the NOL/NOA was determined by an actuarial valuation as of that date.

The University's proportion of the NOL/NOA for GLI, HIC, and VSDP was based on the University's actuarially determined employer contributions to those programs for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. The University's proportion of the LODA NOL was based on the University's actuarially determined pay-as-you-go employer contributions to the LODA plan for the year ended June 30, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. The schedule below presents the University's proportion at June 30, 2017 and June 30, 2016.

University's proportion of contributions, as of June 30, 2017

DIVISION	GLI	HIC	LODA	VSDP
Academic - State Employees	1.5860%	11.3252%	N/A	7.2587%
Academic - Law Officers	0.0143%	0.0404%	0.2683%	0.0520%
Medical Center	0.1857%	6.3864%	N/A	N/A
College at Wise - State Employees	0.0474%	0.2553%	N/A	0.2027%
College at Wise - Law Officers	0.0020%	0.0058%	0.0474%	0.0084%

University's proportion of contributions, as of June 30, 2016

DIVISION	GLI	HIC	LODA	VSDP
Academic - State Employees	1.5342%	10.7932%	N/A	6.9367%
Academic - Law Officers	0.0135%	0.0385%	0.2553%	0.0453%
Medical Center	0.1859%	5.6851%	N/A	N/A
College at Wise - State Employees	0.0485%	0.2589%	N/A	0.2061%
College at Wise - Law Officers	0.0020%	0.0056%	0.0372%	0.0079%

For the year ended June 30, 2018, the University recognized OPEB expense of $17.9 million. Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the agency reported deferred outflows of resources and deferred inflows of resources related to the VRS administered OPEB from the following sources:

YEAR ENDING JUNE 30 *(in thousands)*	**DEFERRED OUTFLOWS OF RESOURCES**	**DEFERRED INFLOWS OF RESOURCES**
Differences between expected and actual experience	$ -	$ 611
Net difference between projected and actual earnings on LODA OPEB plan investments	-	2,677
Change in assumptions	-	4,498
Changes in proportion	10,357	536
Employer contributions subsequent to the measurement date	18,795	-
TOTAL	**$ 29,152**	**$ 8,322**

$18.8 million reported as deferred outflows of resources related to the VRS administered OPEB resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the NOL in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in OPEB expense in future reporting periods as follows:

YEAR ENDING JUNE 30 *(in thousands)*	
2019	$ 396
2020	333
2021	331
2022	314
2023	994
Thereafter	(333)
TOTAL	**$ 2,035**

ACTUARIAL ASSUMPTIONS

The total OPEB liability for all VRS Programs was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation 2.5 percent

Salary increases, including inflation per plan:

Employee Type	GLI	HIC	LODA	VSDP
General State	3.5 - 5.35%	3.5 - 5.35%	3.5 - 5.35%	3.5 - 5.35%
Teachers	3.5 - 5.95%	N/A	N/A	N/A
SPORS	3.5 – 4.75 %	3.5 – 4.75 %	3.5 – 4.75 %	3.5 – 4.75 %
VaLORS	3.5 – 4.75 %	3.5 – 4.75 %	3.5 – 4.75 %	3.5 – 4.75 %
JRS	4.5%	4.5%	N/A	N/A
Locality - Hazardous Duty	3.5 – 4.75%	N/A	3.5 – 4.75%	N/A
Locality - General	3.5 – 5.35%	N/A	N/A	N/A

LODA Medical cost trend rates assumption:

Under age 65	7.75 percent – 5 percent
Ages 65 and older	5.75 percent – 5 percent
Investment rate of return	7 percent (3.56 percent for LODA), net of pension plan investment expenses, including inflation*

** Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7 percent (3.56 percent for LODA). However, since the difference was minimal, and a more conservative 7 percent investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7 percent to simplify preparation of the OPEB liabilities for GLI, HIC, and VSDP. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56 percent was used since it approximates the risk-free rate of return.*

Mortality rates – General State Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85 percent of rates; females set back 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5 percent increase compounded from ages 70 to 85.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115 percent of rates; females 130 percent of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP - 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – Teachers*

Pre-Retirement: RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement: RP-2014 White Collar Employee Rates to age 49, White Collar Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1 percent increase compounded from ages 70 to 90; females set back 3 years with 1.5 percent increase compounded from ages 65 to 70 and 2 percent increase compounded from ages 75 to 90.

Post-Disablement: RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115 percent of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP - 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Mortality rates – SPORS Employees*

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90 percent of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1 percent increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100 percent male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP - 2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90 percent of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1 percent increase compounded from ages 70 to 90; females set forward 3 years

Post-Disablement: RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100 percent male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality rates – JRS Employees*

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85 percent of rates; females set back 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5 percent compounding increase from ages 70 to 85.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115 percent of rates; females 130 percent of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP - 2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Mortality rates – Locality Employees - General Employees*

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95 percent of rates; females 105 percent of rates

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1 percent increase compounded from ages 70 to 90

Post-Disablement: RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; 110 percent of rates; females 125 percent of rates

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP - 2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20% (15% for Non-Largest Ten Locality Employers)

Mortality rates – Locality Employers - Hazardous Duty Employees*

Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90 percent of rates; females set forward 1 year.
Post-Retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1 percent increase compounded from ages 70 to 90; females set forward 3 years
Post-Disablement:	RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100 percent male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP - 2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and increased age 50 rates for Non-Largest Ten Locality Employers
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70% for Largest Ten Locality Employers and decreased rate from 60% to 45% for Non-Largest Ten Locality Employers.

** UVA has no employees currently in these plans. Since the OPEB plans are treated as cost sharing plans and these assumptions affect the liability calculation for the University, the information is presented for informational purposes.*

Net OPEB Liability (Asset)

The net OPEB liability (NOL) or net OPEB asset (NOA) for the VRS administered OPEB plans represent the programs' total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL and NOA amounts for these programs is as follows:

NET OPEB LIABILITY (ASSET) *(in thousands)*				
	GLI	**HIC**	**LODA**	**VSDP**
Total OPEB liability	$ 2,942,426	$ 990,028	$ 266,252	$ 237,013
Less: Plan fiduciary net position	(1,437,586)	(79,516)	(3,461)	(442,334)
EMPLOYER'S NET OPEB LIABILITY (ASSET)	**$ 1,504,840**	**$ 910,512**	**$ 262,791**	**$ (205,321)**
Plan fiduciary net position as a percentage of the total OPEB liability	48.86%	8.03%	1.30%	186.63%

The total OPEB liability (asset) is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The NOL/NOA is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

ASSET CLASS (STRATEGY)	TARGET ALLOCATION	ARITHMETIC LONG-TERM EXPECTED RATE OF RETURN	WEIGHTED AVERAGE LONG-TERM EXPECTED RATE OF RETURN
Public equity	40%	4.54%	1.82%
Fixed income	15%	0.69%	0.10%
Credit strategies	15%	3.96%	0.59%
Real assets	15%	5.76%	0.86%
Private equity	15%	9.53%	1.43%
TOTAL	**100%**		**4.80%**
Inflation			2.50%
Expected arithmetic nominal return*			7.30%

** The above allocation provides a one-year return of 7.3 percent. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83 percent, including expected inflation of 2.5 percent.*

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.56 percent for this valuation. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56 percent was used since it approximates the risk-free rate of return.

Discount Rate

The discount rate used to measure the total GLI, HIC, and VSDP OPEB liability was 7 percent and 3.56 percent for the LODA OPEB liability. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the University for the OPEBs will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100 percent of the actuarially determined contribution rates. Based on those assumptions, the OPEBs' fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the University's Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the University's proportionate share of the NOL/NOA using the discount rate of 7 percent, as well as what the University's proportionate share of the NOL/NOA would be if it were calculated using a discount rate that is one percentage point lower (6 percent) or one percentage point higher (8 percent) than the current rate:

SENSITIVITY OF NET OPEB LIABILITY (ASSET) *(in thousands)*	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer's proportionate share of the VRS administered net OPEB liability	$ 218,022	$ 192,464	$ 170,876
Employer's proportionate share of the VRS administered net OPEB asset	(14,697)	(15,437)	(16,726)

Sensitivity of the University's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

Because the LODA program contains provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the University's proportionate share of the LODA NOL using a health care trend rate of 7.75 percent decreasing to 5 percent, as well as what the University's proportionate share of the LODA NOL would be if it were calculated using a health care trend rate that is one percentage point lower (6.75 percent decreasing to 4 percent) or one percentage point higher (8.75 percent decreasing to 6 percent) than the current rate:

SENSITIVITY OF LODA NET OPEB LIABILITY *(in thousands)*	1.00% Decrease (6.75% decreasing to 4.00%)	Health Care Trend Rates (7.75% decreasing to 5.00%)	1.00% Increase (8.75% decreasing to 6.00%)
Covered employer's proportionate share of the total LODA net OPEB liability	$ 704	$ 829	$ 985

VRS Administered OPEB Programs' Fiduciary Net Position

Detailed information about the VRS administered OPEBs' Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at **http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf**, or by writing to the VRS's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

UNIVERSITY OF VIRGINIA OTHER POSTEMPLOYMENT (OPEB PLANS)

As described in Note 1, the University employees participating in the University's Optional Retirement Plan or the UVA Health Plan are eligible for various OPEBs administered by the University. The specific information for each of the plans, including eligibility, coverage and benefits is set out in the table below:

Optional Retirement Retiree Life Insurance Plans. University faculty and Medical Center employees who participate in the Optional Retirement Plans receive $10,000 in retiree life insurance. The University pays the total cost of the insurance. Benefit provisions for these plans are established and maintained by the University under the authority of the Board. The University does not issue stand-alone financial statements for the plans.

Retiree Health Plan. University employees who retire before becoming eligible for Medicare participate in the Retiree Health Plan, a single-employer defined benefit plan administered by the University, until they are eligible for Medicare. At that time, University retirees can participate in the Commonwealth's Medicare Supplement Plan. The Retiree Health Plan mirrors the University's Health Plan for medical and pharmacy benefits provided to active employees. Benefits provided include preventative care, family planning and maternity, hospital care, surgery, behavioral health care, and other medical services. The amount of coverage ranges depending on the Health Plan option chosen by the employee and type of care. Benefit provisions for the Retiree Health Plan are established and maintained by the University under the authority of the Board. The University does not issue stand-alone financial statements for this plan.

The University also provides dental benefits through the UVA Dental Plan for retirees enrolled in the UVA Health Plan that elected dental coverage. Enrollment in the UVA Dental Plan must be completed at initial enrollment in the health benefits program. Dental enrollment can also be added or dropped during the open enrollment period each year. If dropped by the employee, the employee and/or their covered family members will not be able to re-enroll in the dental plan. As of June 30, 2018, the premiums paid by retirees exceed dental claims, as such, there is no liability associated with this plan.

The contribution requirements of plan members and the University are based on projected pay-as-you-go financing requirements. For fiscal year 2018, the University and Medical Center contributed $932,604 to the plan for retiree costs. Retirees receiving benefits contributed $3.8 million, or approximately 80 percent of the total costs, through their required contributions, ranging from $658 to $3,387 per month.

The actuarial valuation was based on personnel information from University records as of April 1, 2016. The benefit terms of the Retiree Life Insurance and the Retiree Health Plan covered the following employees:

COVERED EMPLOYEES	
Inactive employees currently receiving benefit payments	1,491
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	16,860
TOTAL COVERED EMPLOYEES	**18,351**

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to UVA OPEB Plans

The University's total OPEB liability (TOL) for University administered programs of $101.1 million for the fiscal year ending June 30, 2018 was measured as of July 1, 2017, and was determined by an actuarial valuation as of June 30, 2016. Update procedures were used to roll-forward the census data and actuarially determined liability to the measurement date using standard methodology.

For the year ended June 30, 2018, the University recognized an OPEB expense of $13.9 million. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

YEAR ENDING JUNE 30 *(in thousands)*	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual experience	$ -	$ -
Changes in assumptions or other inputs	-	(6,403)
Transactions subsequent to the measurement date	938	-
TOTAL	**$ 938**	**$ (6,403)**

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

YEAR ENDING JUNE 30 *(in thousands)*	
2019	$ (998)
2020	(997)
2021	(998)
2022	(997)
2023	(998)
Thereafter	(1,415)
TOTAL	**$ (6,403)**

Actuarial Assumptions

The liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	4 percent
Discount rate	3.58 percent, based on the Bond Buyer GO 20-Bond Municipal Bond Index.
Healthcare cost trend rates	7.25 percent for June 30, 2017, decreasing 0.25 percent per year to an ultimate rate of 5 percent for fiscal year 2026 and thereafter.
Retirees' share of benefit-related costs	Retirees pay the full average cost, based on a blend of active employee and retiree cost. Retiree premiums are assumed to increase at the same medical trend rates as overall retiree claims costs.
Mortality rates	RP-2006 Mortality Table with Scale MP-2015.

Total OPEB Liability

TOTAL OPEB LIABILITY *(in thousands)*	
BEGINNING BALANCE AS OF JUNE 30, 2017	**$ 96,696**
Changes for the year:	
Service cost	8,200
Interest	2,932
Changes in assumptions *	(7,401)
Changes in benefit terms **	4,736
Benefit payments	(4,082)
BALANCE AS OF JUNE 30, 2018	**$ 101,081**

** Changes of assumptions reflect a change in the discount rate from 2.85 percent in 2017 to 3.58 percent in 2018.*

*** Changes in benefit terms reflect a change in the life insurance benefit for Medical Center employees. In 2017, their benefit was tiered ranging from 50 percent of salary to $5,000 based on date of hire. Effective January 1, 2018, all employees receive a $10,000 life insurance benefit regardless of their employment date.*

Sensitivity of the University's Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the University, as well as what the University's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58 percent) or one percentage point higher (4.58 percent) than the current discount rate:

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN DISCOUNT RATE *(in thousands)*	1.00% DECREASE (2.58%)	DISCOUNT RATE (3.58%)	1.00% INCREASE (4.58%)
TOTAL OPEB LIABILITY	$ 111,507	$ 101,081	$ 92,243

Sensitivity of the University's Total OPEB Liability to Changes in the Health Care Trend Rate

The following presents the total OPEB liability of the University administered programs, as well as what the University's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.25 percent decreasing to 4 percent) or one percentage point higher (8.25 percent decreasing to 6 percent) than the current healthcare cost trend rates:

SENSITIVITY OF TOTAL OPEB LIABILITY TO HEALTHCARE TREND RATE *(in thousands)*	1.00% DECREASE (6.25% DECREASING TO 4.00%)	HEALTHCARE TREND RATES (7.25% DECREASING TO 5.00%)	1.00% INCREASE (8.25% DECREASING TO 6.00%)
TOTAL OPEB LIABILITY	$ 92,942	$ 101,081	$ 110,581

NOTE 13 SELF-INSURANCE

All University employees have the option to participate in the University's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions. The market value of investments on June 30, 2018, was $33.9 million. Claims and expenses are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. The estimated liability for outstanding claims on June 30, 2018, was $13.8 million. The University has contracted with several third-party claims administrators: Aetna for its medical claims, United Concordia for its dental claims and OptumRx for its pharmacy claims.

University employees are covered by a self-insured workers' compensation benefits program administered by the Commonwealth's Department of Human Resource Management. Information relating to this plan is available at the statewide level only in the Commonwealth's CAFR.

The University's Office of Property and Liability Risk Management manages all property and casualty insurance programs for the University, including the Medical Center and the College at Wise. At present, most insurance coverages are obtained through participation in the state risk management self-insurance plans administered by the Virginia Department of the Treasury, Division of Risk Management. The Division of Risk Management program includes property, mechanical breakdown, crime, employee bond (employee dishonesty), general (tort) liability, professional liability (includes medical malpractice), aviation, network security and privacy insurance (response and regulatory), automobile liability and auto physical damage for vehicles valued in excess of $20,000. The University is self-insured for the first $100,000 ($5,000 for the College at Wise) of each property and mechanical breakdown loss and for physical damage to all vehicles valued up to $20,000. The University also maintains excess crime and employee dishonesty insurance and a special contingency risk insurance policy. Separate insurance coverage is maintained as appropriate for individual departments and subsidiary organizations owned by the University and the Medical Center, such as Community Medicine, LLC and UVA Global, LLC.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Authorized expenditures for construction and other projects unexpended as of June 30, 2018, were approximately $375.9 million.

The University has entered into numerous operating lease agreements to rent, lease, and maintain land, buildings, and equipment, which expire on various dates. In most cases, the University has renewal options on the leased assets for another similar term and expects that, in the normal course of business, these leases will be replaced by similar leases. Operating lease expense totaled approximately $31.9 million for the year ended June 30, 2018.

The University's ongoing minimum commitments for operating leases for land, office and clinical buildings, and equipment are as follows:

YEARS ENDING JUNE 30 *(in thousands)*	**LEASE OBLIGATION**
2019	$ 12,982
2020	9,834
2021	7,606
2022	5,494
2023	4,504
2024-28	7,513
2029-33	2,680
2034-38	575
TOTAL	**$ 51,188**

In June 2017, the Medical Center was advised that Palmetto GBA, LLC had overpaid renal outlier payments for fiscal years 2014 – 2017 by $7.5 million. A liability has been booked in the University's financial statements for this amount as of June 30, 2018. The issue remains unresolved, but the Medical Center believes it is probable that the amount will have to be refunded.

LITIGATION

The University is a party to various legal actions and other claims in the normal course of business. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial position.

NOTE 15 SUBSEQUENT EVENTS

On July 1, 2018, the Medical Center entered into a 50/50 joint venture with the Children's Hospital of the Kings Daughters to establish a limited liability company called Fortify Children's Health. Fortify Children's Health is a statewide pediatric physician network created in order to provide better access to pediatric care throughout the Commonwealth.

On September 18, 2018, the University purchased all outstanding shares of capital stock in Meadow Creek Corporation from the University of Virginia Foundation for $12.4 million.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

VIRGINIA RETIREMENT SYSTEM PENSION PLANS

SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY*
(in thousands)

	VRS STATE EMPLOYEE RETIREMENT PLAN				VaLORS RETIREMENT PLAN			
	2018	2017	2016	2015	2018	2017	2016	2015
Employer's proportion of the net pension liability	8.59%	8.28%	8.19%	8.12%	0.87%	0.80%	0.86%	0.79%
Employer's proportionate share of the net pension liability	$ 500,697	$ 545,568	$ 501,446	$ 454,655	$ 5,689	$ 6,218	$ 6,144	$ 5,294
Covered payroll	$ 352,738	$ 332,184	$ 318,920	$ 314,268	$ 3,255	$ 3,085	$ 3,036	$ 3,088
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	141.95%	164.24%	157.23%	144.67%	174.78%	201.56%	202.37%	171.44%
Plan fiduciary net position as a percentage of the total pension liability	75.33%	71.29%	72.81%	74.28%	67.22%	61.01%	62.64%	63.05%

** The amounts presented have a measurement date of the previous fiscal year end. Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only four years of data are presented. However, additional years will be included as they become available.*

SCHEDULE OF EMPLOYER CONTRIBUTIONS*
(in thousands)

PLAN		CONTRACTUALLY REQUIRED CONTRIBUTION	CONTRIBUTIONS IN RELATION TO CONTRACTUALLY REQUIRED CONTRIBUTION	CONTRIBUTION DEFICIENCY	EMPLOYER'S COVERED PAYROLL	CONTRIBUTIONS AS A % OF EMPLOYER'S COVERED PAYROLL
VRS State Employee Retirement Plan	2018	$ 47,979	$ 47,979	$ -	$ 371,724	12.91%
	2017	46,238	46,238	-	352,738	13.11%
	2016	44,925	44,925	-	332,184	13.52%
	2015	37,781	37,781	-	318,920	11.85%
VaLORS Retirement Plan	2018	$ 649	$ 649	$ -	$ 3,367	19.28%
	2017	643	643	-	3,255	19.75%
	2016	570	570	-	3,085	18.48%
	2015	498	498	-	3,036	16.40%

** Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only four years of data are presented. However, additional years will be included as they become available.*

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - VIRGINIA RETIREMENT SYSTEM PENSION PLANS

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014, and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017, are not material.

Changes of assumptions - The following changes in actuarial assumptions were made for the VRS State Employee Retirement Plan effective June 30, 2016, based on the most recent experience study of the System for the four-year period ending June 30, 2016:

-- Update mortality table to RP-2014 projected to 2020
-- Lowered retirement rates at older ages and changed final retirement from 70 to 75
-- Adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service
-- Adjusted disability rates to better match experience
-- Line of Duty Disability rate increased from 14 percent to 25 percent

The following changes in actuarial assumptions were made for the VaLORS Retirement Plan effective June 30, 2016, based on the most recent experience study of the System for the four-year period ending June 30, 2016:

-- Update mortality table to RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
-- Increased age 50 retirement rates and lowered rates at older ages
-- Adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service
-- Adjusted disability rates to better match experience
-- Decrease service related disability rate from 50 percent to 35 percent

POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSIONS - VIRGINIA RETIREMENT SYSTEM OPEBS

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY* *(in thousands)*	2018
EMPLOYER'S PROPORTION OF THE NET OPEB LIABILITY (ASSET) BY PLAN AND EMPLOYEE TYPE	
GLI OPEB Liability (Asset)	
University Employees - VRS	1.586%
University Employees - VaLORS	0.014%
Medical Center Employees - VRS	0.186%
College at Wise Employees - VRS	0.047%
College at Wise Employees - VaLORS	0.002%
HIC OPEB Liability (Asset)	
University Employees - VRS	11.325%
University Employees - VaLORS	0.040%
Medical Center Employees - VRS	6.386%
College at Wise Employees - VRS	0.255%
College at Wise Employees - VaLORS	0.006%
LODA OPEB Liability (Asset)	
University Employees - VRS	N/A
University Employees - VaLORS	0.268%
Medical Center Employees - VRS	N/A
College at Wise Employees - VRS	N/A
College at Wise Employees - VaLORS	0.047%
VSDP OPEB Liability (Asset)	
University Employees - VRS	7.259%
University Employees - VaLORS	0.052%
Medical Center Employees - VRS	N/A
College at Wise Employees - VRS	0.203%
College at Wise Employees - VaLORS	0.008%
EMPLOYER'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET) BY PLAN AND EMPLOYEE TYPE	
GLI OPEB Liability (Asset)	
University Employees - VRS	$ 23,866
University Employees - VaLORS	216
Medical Center Employees - VRS	2,794
College at Wise Employees - VRS	713
College at Wise Employees - VaLORS	31
HIC OPEB Liability (Asset)	
University Employees - VRS	$ 103,119
University Employees - VaLORS	368
Medical Center Employees - VRS	58,152
College at Wise Employees - VRS	2,324
College at Wise Employees - VaLORS	52
LODA OPEB Liability (Asset)	
University Employees - VRS	N/A
University Employees - VaLORS	$ 705
Medical Center Employees - VRS	N/A
College at Wise Employees - VRS	N/A
College at Wise Employees - VaLORS	124
VSDP OPEB Liability (Asset)	
University Employees - VRS	$ (14,896)
University Employees - VaLORS	(107)
Medical Center Employees - VRS	N/A
College at Wise Employees - VRS	(417)
College at Wise Employees - VaLORS	(17)

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY (CONTINUED)* *(in thousands)*	**2018**
EMPLOYER'S COVERED PAYROLL	
GLI OPEB Liability (Asset)	
University Employees - VRS	$ 311,098
University Employees - VaLORS	3,254
Medical Center Employees - VRS	41,631
College at Wise Employees - VRS	8,511
College at Wise Employees - VaLORS	375
HIC OPEB Liability (Asset)	
University Employees - VRS	$ 311,098
University Employees - VaLORS	3,254
Medical Center Employees - VRS	41,631
College at Wise Employees - VRS	8,511
College at Wise Employees - VaLORS	375
LODA OPEB Liability (Asset)**	
University Employees - VRS	N/A
University Employees - VaLORS	$ 3,254
Medical Center Employees - VRS	N/A
College at Wise Employees - VRS	N/A
College at Wise Employees - VaLORS	375
VSDP OPEB Liability (Asset)	
University Employees - VRS	$ 311,098
University Employees - VaLORS	3,254
Medical Center Employees - VRS	N/A
College at Wise Employees - VRS	8,511
College at Wise Employees - VaLORS	375
EMPLOYER'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED PAYROLL	
GLI OPEB Liability (Asset)	
University Employees - VRS	7.672%
University Employees - VaLORS	6.638%
Medical Center Employees - VRS	6.711%
College at Wise Employees - VRS	8.378%
College at Wise Employees - VaLORS	8.276%
HIC OPEB Liability (Asset)	
University Employees - VRS	33.147%
University Employees - VaLORS	11.308%
Medical Center Employees - VRS	139.684%
College at Wise Employees - VRS	27.307%
College at Wise Employees - VaLORS	13.882%
LODA OPEB Liability (Asset)**	
University Employees - VRS	N/A
University Employees - VaLORS	21.664%
Medical Center Employees - VRS	N/A
College at Wise Employees - VRS	N/A
College at Wise Employees - VaLORS	33.103%
VSDP OPEB Liability (Asset)	
University Employees - VRS	(4.788%)
University Employees - VaLORS	(3.288%)
Medical Center Employees - VRS	N/A
College at Wise Employees - VRS	(4.900%)
College at Wise Employees - VaLORS	(4.538%)

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY (CONTINUED)* *(in thousands)*	**2018**
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY	
GLI OPEB Liabiliity	48.86%
HIC OPEB Liability	8.03%
LODA OPEB Liability	1.30%
VSDP OPEB Liability	186.63%

* The amounts presented have a measurement date of the previous fiscal year end. Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.
** The contributions for the Line of Duty Act Program are based on the number of participants in the program using a per capita-based contribution versus a payroll-based contribution.

SCHEDULE OF EMPLOYER CONTRIBUTIONS* *(in thousands)*		CONTRACTUALLY REQUIRED CONTRIBUTION	CONTRIBUTIONS IN RELATION TO CONTRACTUALLY REQUIRED CONTRIBUTION	CONTRIBUTION DEFICIENCY	EMPLOYER'S COVERED PAYROLL**	CONTRIBUTIONS AS A % OF EMPLOYER'S COVERED PAYROLL**
GLI	2018	$ 2,069	$ 2,069	$ -	$ 375,091	0.55%
HIC	2018	$ 14,721	$ 14,721	$ -	$ 375,091	3.92%
LODA	2018	$ 35	$ 35	$ -	$ 3,367	1.04%
VSDP	2018	$ 1,970	$ 1,970	$ -	$ 333,666	0.59%

* Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.
**As contributions to the Line of Duty Act OPEB plan are not directly related to payroll, the amounts presented represent covered-employee payroll and contributions as a % of covered employee's covered payroll.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - VIRGINIA RETIREMENT SYSTEM OPEBS

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - Details regarding the changes of assumptions made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016 can be found in Note 12 to the financial statements.

POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSIONS - UVA ADMINISTERED OPEBS

TOTAL OPEB LIABILITY AND RELATED RATIOS* *(in thousands)*	**2018**
TOTAL OPEB LIABILITY	
Retiree Health Plan	$ 78,230
Optional Retirement Retiree Life Insurance	22,851
COVERED-EMPLOYEE PAYROLL	
Retiree Health Plan	$ 482,636
Optional Retirement Retiree Life Insurance	481,884
TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	
Retiree Health Plan	16.21%
Optional Retirement Retiree Life Insurance	4.74%

* Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - UVA ADMINISTERED OPEBS

Changes of benefit terms - The life insurance benefit for the Medical Center was updated. The benefit is now $10,000 regardless of retirement date.

Changes of assumptions - The discount rate increased from 2.85 percent to 3.58 percent.

Financial Report 2017-18

PREPARED BY UVAFINANCE

Melody S. Bianchetto	*Vice President for Finance*
Gerald E. Burke	*Assistant Vice President for Financial Operations*
Thomas C. Schneeberger	*Director of Financial Reporting*
Jacob Mair	*Financial Reporting Analyst*

DESIGN BY

Matthew Bonham	*Communications Lead*

An online version of this report is available at fro.vpfinance.virginia.edu

The University of Virginia does not discriminate on the basis of age, color, disability, gender identity, marital status, national or ethnic origin, political affiliation, race, religion, sex (including pregnancy), sexual orientation, veteran status, and family medical or genetic information, in its programs and activities as required by Title IX of the Education Amendments of 1972, the Americans with Disabilities Act of 1990, as amended, Section 504 of the Rehabilitation Act of 1973, Titles VI and VII of the Civil Rights Act of 1964, the Age Discrimination Act of 1975, the Governor's Executive Order Number One (2018), and other applicable statutes and University policies. The University of Virginia prohibits sexual and gender-based harassment, including sexual assault, and other forms of interpersonal violence.

The following person has been designated to handle inquiries regarding the Americans with Disabilities Act, the Rehabilitation Act, and related statutes and regulations: Melvin Mallory, ADA Coordinator, Office for Equal Opportunity and Civil Rights, 2015 Ivy Road, Room 321, Dynamics Building, P.O. Box 400144, Charlottesville, VA 22904, (434) 924-3295, ADACoordinator@virginia.edu.

The following person has been designated to handle inquiries regarding non-discrimination policies: Catherine Spear, Associate Vice President, Office for Equal Opportunity and Civil Rights, P.O. Box 400219, Washington Hall, Charlottesville, VA 22904, (434) 924-3200, UVaEOCR@virginia.edu.

The following person has been designated to serve as the overall coordinator for purposes of Title IX compliance: Emily Babb, Assistant Vice President for Title IX Compliance/Title IX Coordinator, O'Neil Hall, Room 037, (434) 297-7643, ecb6y@virginia.edu or TitleIXCoordinator@virginia.edu.

FINANCIAL REPORT 2017 - 2018